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The MAGAZINE of WALL STREET

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Public Utility Bargain Indicator

Principles of Federal Reserve System

WRITTEN FOR BUSINESS MAN AND INVESTOR

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THE OUTLOOK

New Taxation Program—The Income Tax—War Profits—The Finance Corporation—Outlook for the Rails—Wage Inflation—Market Prospect

THE principal reason for the considerable reaction in the speculative section of the market has been the decision of the administration in favor of the immediate passage of a new tax bill, which must inevitably include a liberal increase in taxes. A second reason, not without importance, was the weakened technical position of the market as a result of the preceding sharp advance. A market in which short selling is so controlled and restricted necessarily lacks stability because of its one-sidedness.

How much influence the easy advance of the Teutons to the Marne may have had it is not easy to decide. While the German gains are discouraging, leading financial interests cling firmly to the view that the eventual result is not in doubt.

The New Taxation Program

AFTER some wavering and division of counsels, the administration finally decided to push a new taxation bill at once. The prime motive with the President is said to be the importance of checking expenditures for luxuries at a time when the nation cannot afford them. If this is correct, the heaviest increases in taxes may be expected to fall on incomes, for it is there that expenditures can be checked most effectively.

An increase in the excess profits tax, and a change in the law to make this tax fall more strictly on war profits, is also on the program. It must, however, be said on behalf of our war industries that a comparatively small part of their profits have been paid out as dividends. For the most part, these profits have been reinvested in the enlargement of plants and production, and in carrying bigger inventories of materials and partly finished products.

Since our crying need is for bigger war production, this use of profits is for the public interest—especially at a time when the Government's direct demands on capital have made it difficult for corporations to raise new capital in the usual way by the sale of their securities.

The adjustment of taxes to curb extravagance will require all the skill our lawmakers have at their command. Our present income tax bears heavily on the millionaire, but the luxury expenditures of the millionaire class constitute a much smaller part of our total waste than is usually imagined. The free spending of wages now far beyond the dreams of wage-earners, of the incomes of farmers now receiving such extraordinary prices for their products, and of the profits of innumerable persons who are in a position to benefit indirectly from the war, make up most of the extravagance which needs to be checked.

Need of Income Tax Revision

OUR present income tax law is perhaps the most absurd hodge-podge ever placed on our statute books. After several years of struggling with its intricacies, the Treasury is still unable to fit it to all cases, and it throws a heavy and entirely unjust burden of detail on bankers, brokers, employers and all those who in any way handle the incomes of others. It is full of inequalities and unnecessary complications. It makes no distinction between earned and unearned incomes. It contains numerous provisions which are unenforceable in actual practice.

It is certainly to be hoped that since our taxation program is to be revised the revision may be thorough enough to make both the income and the excess profits tax laws simpler and more definite. We have yet to hear from any tax-payer who is unwilling to bear his share of the war burden—but all of us dislike to feel that we are also bearing a part of the other fellow's burden.

Tax on War Profits

IT is as yet impossible to estimate the degree to which the increase in taxation will fall upon industrial corporations. A great deal of money must be raised. Our annual Government revenues are now about four billions. Our expenditures for 1918 are estimated at twelve billions, but there is some uncertainty as to whether that amount can be used to advantage in view of the scarcity of labor, transportation and materials. Our program for 1919 involves twenty billions or more, with the same uncertainty attached to it.

With this heavy burden ahead of us, it is self-evident that war profits should be limited to the amount necessary to insure maximum production. Just what that amount is no one can say. But we must err on the side of liberality rather than on the side of what might prove to be a restrictive economy.

It is clear that our principal corporations, on their present scale of profits, which in many cases is 25% to 50% of their market prices, could stand a considerable increase in taxation, if confined to profits actually resulting from the war, without serious injury. On the other hand, with the rapid rise in wages and costs, taxation must be so adjusted as to fall upon actual profits rather than upon gross receipts.

Aid Through War Finance Corporation

THE extent of the aid in corporation financing which may be expected from the War Finance Corporation is an important element in the general problem of our capital requirements. The Corporation has refused a direct loan to the New Orleans Railway & Light Co. to meet maturing notes, on the ground that the assistance should be sought indirectly through the banks and that direct assistance should be rendered by the Corporation only under exceptional circumstances. This is a question of method rather than of final results, since the law provides the plan by which the banks may in turn fall back on the War Finance Corporation for help.

Interboro Rapid Transit has applied to the Corporation for a loan of $37,700,000. What action the Corporation will take in regard to the $57,000,000 Brooklyn Rapid Transit notes which mature July 1 is as yet undecided.

It will be remembered that the law provides that this Corporation may aid in financing necessary to the war, only in cases where the industries concerned find it impossible to do such financing through the banks. The officers of companies needing money will naturally seek the easiest way, and in some cases they may be inclined to fall back upon the great resources of the Government before they have exhausted other channels of financing.

It will be necessary for the Corporation to place some obstacles in the way of applications for aid, in order to conserve its resources for cases of real necessity. Yet with the present limited supplies of capital it is clear that the operations of the Corporation must become increasingly important as the war continues. In view of the tremendous possibilities of inflation involved in the law, the Treasury will undoubtedly exercise con-

servatism in carrying out its provisions, but the Corporation will be the backlog of a great deal of war financing.

Outlook For the Rails

WITH the official announcement that railroad rates are to be raised 25% on freight and to three cents a mile for passengers, the position of the rails under Government operation becomes more definite. The Railroad Administration has estimated that the increase in wages would add $300,000,000 to operating expenses, the higher cost of coal perhaps $150,000,000, the greater cost of equipment something like $200,000,000.

To offset these increased costs, the higher rates are expected to add about $900,-000,000 to income. This would apparently leave a margin of about $250,000,000 to the good, but that might evaporate through miscellaneous expenditures.

It is to be borne in mind, however, that freight rates have already been increased 15% this year, before the announced 25% further advance. If business continues as heavy as in 1917, and if Government operation proves as economical as private operation, it is probable that the administration's estimates of the increase in income will prove ultra-conservative for 1919. As to 1918, the wage advance is retroactive to January 1 while the rate advance is not, and railroad business for the first quarter of the year was partly demoralized, so that no excess of income for this year is probable.

All this makes no immediate difference to the railroad stockholder, since his dividends are to be fixed on the basis of past results and defined in the railroads' contracts with the Government; but it will evidently insure the proper maintenance of the roads, and it will result in fixing as a part of our policy the principle—self-evident, but never acknowledged by the Interstate Commerce Commission—that rates should rise with a rise in expenses.

Wage Inflation

PRESIDENT HADLEY of Yale estimates that at least 20% of the productive power of the nation is now being applied to the war. Under such conditions it is inevitable that wages should rise and that the efficiency of labor should fall. Higher wages are necessary to draw new workers into production, and those new workers, through inexperience and lower physical capacity, are less efficient.

More work is the great underlying necessity of the war and for that reason wage inflation must apparently continue. Its influence ramifies far. The cost of living, for example, is nearly all composed of wages paid to others for producing the things we use. So long as wages rise, the cost of living must rise also. Higher freight rates, themselves the result of higher wages, will enter into the prices of nearly everything we buy.

This situation means higher costs to industrial companies for materials, labor and transportation. Their profits must be sufficient to amply cover those costs without hampering their war production. And Congress, in laying taxes, must and doubtless will bear that fact in mind. Any other policy would be suicidal.

The Market Prospect

THE bond market has reacted but little from its recent gain. With the Federal Board at the helm of the money market, and with the War Finance Corporation entering the field of war capital, we believe that bond prices will continue to be well maintained.

Railway stocks are in a strong position. Not only are earnings guaranteed by the Government, but adequate maintenance and security for the future have now been provided by liberal rate increases.

The reaction in the industrials seems to us to have gone far enough. Even allowing for increased war taxes, we believe these companies must and will be permitted to make fair profits, and the reinvestment of so large a part of their big earnings of the last two years has greatly increased the assets behind their securities.

June 3, 1918.

Our Point of View

On Vital Factors in Finance and Business

Price Limits Should Be Elastic

NO one, so far as we can discover, is inclined to object to heavier taxes if they are necessary to win the war. Our motto is, "To the last dollar and the last ounce of our strength." But there are many—and we are among that number—who doubt whether the Government's policy of price regulation is being wisely handled in all respects.

For example, it is reported that several small copper mines have been compelled to cease production because of rising costs and the stationary selling price of 23½ cents. At the moment, we probably have copper enough to meet the war demand, but we have no great surplus ahead and we have no means of knowing how much copper we may need. From the looks of the western front as this is written, we may need a great deal.

Is it wise to let prices limit production of any of the materials essential in war work? We desire to limit profits to reasonable figures, but that end should be strictly subordinate to our main purpose of winning the war. And to win the war, big production is essential.

Fixed prices should be regarded as fixed temporarily only. They must have enough elasticity about them to respond to new conditions—and with costs rising everywhere, new conditions are constantly arising.

* * *

"Liberty Shoe" May Come Next

It is inevitable, however, that Government control of industry should continually broaden. The situation in the shoe and leather trade is an illustration. Prices for hides have been fixed for an experimental period of three months. With hide prices limited, the next step will naturally be to fix leather prices, as otherwise the spread between hides and leather would widen. If leather is fixed, shoes would probably follow, for the same reason.

Some manufacturers expect that a "Liberty shoe" will appear—a standard national shoe with a maximum price, accompanied by some method of regulating the prices of other shoes. Such measures need not harm the shoe and leather industry—if they are wisely and justly applied, and with sufficient elasticity and susceptibility to change. War wears out shoes very rapidly. We are a long way from the asphalt composition soles and paper uppers of Germany, but we are not far from scarcity of leather.

* * *

Merging of Express Companies

Another illustration of the rapid increase in Government control is seen in Director-General of Railroads McAdoo's approval of the plan for consolidation of the four great express companies —The Adams, American, Wells Fargo and Southern. It is proposed to capitalize the new company at $30,000,000, which is believed to be approximately the value of the physical properties. This compares with a present combined capitalization of the four companies of $57,000,000.

Service and rates will of course be entirely under McAdoo's control, but it is not proposed to guarantee the companies a definite income, as has been done in the case of the railroads. The new arrangement will permit greater economy through avoidance of the duplication of facilities and through closer cooperation with the railroads, whose employees will be used in express service, with proper compensation, to be fixed by the Director General.

Without question this will be a step toward greater efficiency. How the stockholders of the present companies will come out is not precisely clear. The Government, it is stated, is to receive a shade over one-half of the gross earnings. Out of the balance the company will pay expenses and taxes and a dividend of 5% on its stock. Additional earnings, if any, will be divided between the company and the Government on a pre-arranged schedule. It is to be assumed that, after a practical test of the arrangement, the stockholders will be fairly treated in the matter of returns on their investment.

Some such step was doubtless inevitable. As in all other moves toward increased Government control of industry, the whole point of the matter lies in the manner in which that control is exercised. At a time when our greatest need is more capital, it is more than ever important that investors should be protected.

The "Two Dollar" Broker Who Became a Railroad Emperor

E. H. Harriman's Extraordinary Career—Fifty Years Old Before He Began His Great Success—Otto Kahn's Estimate of Harriman

By BARNARD POWERS

EDWARD HENRY HARRIMAN, born the son of a poor preacher, at 16 a clerk in a Wall Street brokerage office, at 22 in business for himself and a member of the New York Stock Exchange, at 48 a man of recognized ability and some fortune, but one of the smallest toads in the great financial puddle and at 60 recognized Emperor of the railroad world, controlling 25,000 miles of lines and billions of dollars, millionaire many times over and exercising a power which few men have attained in the history of finance. Then death.

Such is the thumbnail sketch of the late E. H. Harriman, who achieved more in a shorter space of time than any other financial leader who ever lived. All his great rise to power came practically in the thirteen years immediately preceding his death.

There is a curious lack of information about Mr. Harriman's earlier years. None of the boyhood anecdotes which cluster about the youth of most big men seem to be available in his case. Hardly more is obtainable about his early business career. There are Wall Street old-timers, and not so very old at that, who can remember the young Harriman, a "cold-blooded little cuss," as one of them epitomized him, when he was nothing more than a shrewd trader on the floor of the Exchange and when he was glad to pick up a commission as a "two-dollar" broker, but there apparently was nothing about him then that stamped him as the great Harriman of later years. He impressed his friends and associates as being a bright and efficient young chap, but no one saw in him the "Colossus of Roads" which he later became.

Parentage and Youth

E. H. Harriman was born in the little Episcopal parsonage at Hempstead, Long Island, on the 25th of February, 1848. On both sides of the house there was good blood. His father, the Rev. Orlando Harriman, was the great grandson of one William Harriman, of merrie Nottingham, who was a member of the Worshipful Companie of Stationers in London and who came to New York in 1795. His mother, born Cornelia Neilson, was of excellent family connections and a woman of unusual character. But family connections do not buy food or pay bills except under pressure, and the Harrimans, living on the small salary of a country parson, were exceedingly poor. For five years the father stuck to his little church at Hempstead and then went to St. John's in Hoboken on a stipend of $200 a year. Young Harriman, one of six children, was not, it may be safely assumed, reared in an atmosphere which in any degree smacked of luxury. But in later years the lot of the Harrimans was easier, for a relative died, leaving the mother enough money so that the family was able to live at least in comfort.

At 16 young Harriman made his debut in Wall Street. It is said that he wanted to enter West Point, but did not have the necessary backing to get an appointment. His first job was that of clerk in a broker's office, and he must have been a good clerk, for at 22 he had scraped together enough money, from whence Heaven knows, to buy a seat on the Stock Exchange for $3,000. Together with James and Lewis Livingston the firm of Harriman & Co. set sail on the troubled seas of finance.

"I hope you will succeed," remarked a well-wisher.

"I hope we will, too," replied Harriman pulling a $100 bill from his pocket, "for this is every cent I have."

Aided by the Livingston and Harriman connections the new firm did a good business. Harriman was the floor man and he studied his business with the same inten-

sity with which he applied himself to railroading in later years. He was impatient of the theory that stock prices rise or fall according to chance. He believed that the man who studied most and knew most was most likely to succeed, a truism which, while almost self-evident, scarcely is ever realized by the rank and file of the speculators who infest the financial district.

Alert, keen-brained, quick to realize a chance for profit and quicker still to scent the danger of loss, he prospered. He learned the golden secret of how to make money in bad times as well as good and succeeding panics only served to augment his bank roll. In later years he said that the fifteen years he spent as a trader were wasted, but it is doubtful if he could have had a financial training that would have proved a better whetstone to wits already naturally sharp.

At length he had acquired enough money so that he was able to buy into two small railroads in Northern New York and became a director in each. This was his first essay into the railroad field. While on a trip of inspection over one of them, the Ogdensburg & Lake Champlain, he met the daughter of its president, the beautiful and talented Miss Averell, who shortly thereafter consented to become Mrs. Harriman. When his wife's father died she brought to her husband a fortune of approximately $400,000 which, under his magic touch, grew into the millions. There is no better testimonial as to the happiness of this marriage than the fact that when he died Mr. Harriman left his entire fortune to his wife and made her sole administratrix of the great fortune he had won.

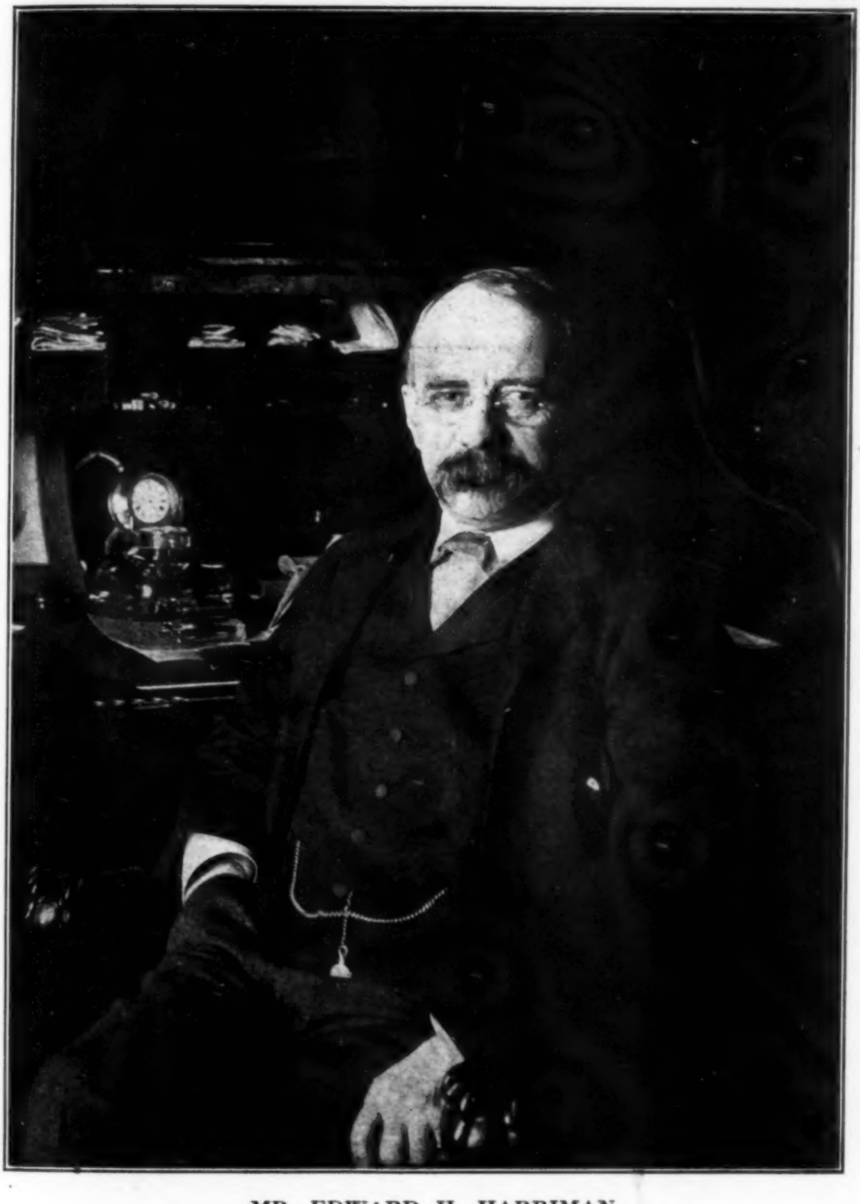
One of the latest pictures taken of Mr. Harriman before his death, showing him embarking on a trip to Europe.

Harriman's progress until his late forties was steady but not spectacular. In 1883, when 35 years old, he became a director in the Illinois Central and in 1887 its vice-president. In 1893 he participated with J. P. Morgan in the reorganization of the Erie. All those years were years of intense study. He studied railroads from every angle, administrative, operating and financial. Operating costs, ton miles, traffic density, he absorbed morning, noon and night. In his younger days he went about a good deal, was a crack billiardist, excellent shot, enjoyed cards and fast horses, but as he became more and more immersed in railroading he gave up the lighter pleasures of existence and threw himself body and soul into business.

The Great Opportunity

Before his great opportunity came he had acquired considerable wealth and was known as a man of ability, but outside of that had attracted no especial comment. It is said that he even contemplated retiring when he was but a few years over 50.

Contrary to the general belief, Harriman did not take the Union Pacific to Kuhn, Loeb & Co. That then despised railroad, burdened with debt, the discarded financial football of earlier days, owing the Government $40,000,000, for which the Government was vigorously pressing, was without honor or friends. Even that Great Reorganizer, the late J. P. Morgan, after looking over the debris, threw up his hands and turned away. But there was a little man whose dark eyes glittered behind owlish spectacles who had fixed his intense gaze on the broad Union Pacific pathway across the continent and determined to make it his own. He had dreamed a dream of the West. He saw the wide prairies blossom into wheat and rye, the great forests give up their lumber and the rich earth its



MR. EDWARD H. HARRIMAN

Who attained greater power in less time than any man in financial history. Through sheer persistence and the force of his personality he became the dominating figure in the railroad world before he had reached the age of sixty, although he was the son of a poor minister and had spent fifteen years on the Stock Exchange as a "two dollar" broker before he attracted even local notice. His health shattered by overwork, he died at the age of sixty-two. Had he lived the entire course of railroad history in this country would have run a different course, as his ambitions were far greater than any of the miracles he had accomplished.

metals. He saw flourishing towns and cities take the place of sage brush and prairie dogs and great freight trains and passenger expresses rush where a thin stream of traffic then moved slowly. Thus E. H. Harriman dreamed. Do not say that men of money have no imagination. To dream such a dream and to make it come *true* requires more imagination than exists in the minds of a thousand poets making odes to the nightingales.

When Mr. Jacob H. Schiff undertook to reorganize the nearly defunct Union Pacific he found himself constantly met by a silent but efficient opposition. The trail was finally traced to the Harriman doorstep and Mr. Schiff asked Mr. Harriman to call. The latter did so and frankly admitted that he had been blocking the Schiff plans.

"Why are you doing so?" was asked.

"Because I want it for myself," was the reply.

"Would you be satisfied to be a director?"

"No."

The conference then ended, but in the end Harriman had his way, as he always did, and became the dominating influence in Union Pacific's affairs.

The story of the rehabilitation of Union Pacific is a long one. Suffice to say that with Harriman at the helm and the powerful house of Kuhn-Loeb as bankers, hundreds of millions were expended in additions and improvements until Union Pacific was the best equipped and best run railroad in the country. Harriman had "arrived" and his name was one to conjure with.

But great as his success had been it was nothing to the plans that seethed in his active brain. By 1906, through purchases of the Illinois Central, joint control of the Baltimore & Ohio and holdings of N. Y. Central stock, he had rights of way from San Francisco to New York and Chicago to New Orleans. His steamships ran from the Pacific coast to Asia and he made a trip to Japan looking to the building of a railroad across Siberia which should be another link in the Harriman chain to girdle the earth. It was said that he considered establishing a vast financial bank owned and controlled by himself and which should finance his enterprises. But death stopped the throbbing of that vast brain and there was none great enough to take up his plans where he left off.

When he died, in addition to controlling 25,000 miles of railroads, he was a director in the New York Central, Baltimore & Ohio, Equitable Life Assurance Co., Wells Fargo Express Co., Western Union, Colorado Fuel & Iron, National City Bank, Guaranty Trust Co., Equitable Trust Co. and Mercantile Trust Co. He left a fortune of approximately $75,000,000.

Had he been asked to whom he had been most indebted for his great success he probably would have replied, "Myself," as he once did to J. P. Morgan when the banker asked him whom he represented.

The foregoing is a brief sketch of Mr. Harriman's life and attainments. An abler pen than mine has given a striking picture of his character and characteristics and we therefore reprint from the remarks made by Mr. Kahn in an address which he made about two years after Mr. Harriman's death in 1909:

Otto Kahn's Estimate of E. H. Harriman

(Associated with Mr. Harriman for many years in the closest of business relationship no one is better qualified than Mr. Otto H. Kahn, of the firm of Kuhn, Loeb & Co., to write Mr. Harriman's epitaph. Following are striking extracts from a memorable address which Mr. Kahn delivered on Mr. Harriman at the Finance Forum in New York about two years after the latter's death. They form a clear and accurate portrait of America's greatest railroad genius.—*Editor.*)

My first vivid impression of Mr. Harriman dates back to a hot summer afternoon in 1897, when, looking pale, weary, and tired out, he came to my firm's office to induce us to take an interest with him in a certain business. We did not particularly care for it, and told him that we preferred not to join in the transaction. He argued to convince us of its merits, and, finally, not having made any headway, he desisted. I thought he had accepted our declination. He got up to go, but turned around at the

door and said: "I am dead tired this afternoon, and no good any more. I have been on this job uninterruptedly all day, taking no time even for luncheon. I'll tackle you again to-morrow, when I am fresh. I'm bound to convince you, and to get you to come along." He did. He came again the next day, and finally we yielded to the sheer persistency of the man, and to the lucidity of his arguments. It is worth mentioning, by the way, that his judgment was right; the business turned out very well.

The incident has impressed itself upon my mind because though of small importance in itself, it was so characteristic of the man. There was first of all the correct judgment as to the merits of a proposition and as to its outcome—a judgment marvelously clear and sure, almost infallible. There was, secondly, the iron determination—so conspicuously in contrast to his frail appearance—the dogged persistency in pursuing and carrying out his purpose. He did not know the meaning of the word "defeat." He never "threw up the sponge." His power of will was nothing short of phenomenal; and by its exercise, coupled with his indomitable pluck and amazing brain faculties, I have seen him perform veritable miracles in the way of making people do as he wanted.

An Irresistible Force

Not infrequently he would come to meetings at which ten or twelve men sat around the table with him,—men, too, of no mean standing in the business community,—a large majority of whom were opposed to the measures he would propose. Yet, I know of hardly an instance of any importance where his views did not prevail finally, and, what is more generally by unanimous vote. If he did not succeed in what he had set himself to achieve at the first attempt, or the second, or the third attempt, he would retreat for a while, but he never gave up; he moved on towards the attainment of his object, undismayed, resourceful, relentless as fate, with that supreme patience which, according to Disraeli, is "a necessary ingredient of genius." When Mr. Ryan bought the control of the Equitable Life Assurance Society, Mr. Harriman claimed to share in the purchase. Mr. Ryan refused positively and publicly. For five years nothing more was heard of the matter, and even Mr. Harriman's intimate associates thought he had dropped the idea. Only a short while ago it became known that a year before his death Mr. Harriman had finally succeeded in his object, having purchased from Mr. Ryan one-half of his holdings. A high placed personage temporarily residing in Japan during the year 1905 told me that the most amazing thing he had ever witnessed was the way in which Mr. Harriman in the course of a ten days' visit to Tokio made a whirlwind campaign among the leading men and succeeded in carrying away from the wily, wary, slow-moving Orientals a most important contract—so important and so far-reaching that, had it been carried out (and it was no fault of Mr. Harriman's that it was not), the course of Far Eastern diplomacy in recent years would have been different in some essential aspects. I was asked sometimes, when things that had seemed utterly improbable of realization were finally accomplished by Mr. Harriman, to give a reason why the parties concerned had yielded to him. What was the inducement? What the motive of their action? Why had they done finally what they had declared they would not do, or what there was no plausible explanation for their doing? My answer was: "Simply because Mr. Harriman had set his will and mind to work to make them do it." He once said to me, early in our acquaintance: "All the opportunity I ask is to be one amongst fifteen men in a board room." Yet he had neither eloquence nor what is ordinarily called tact or attractiveness. His were not the ways or the gifts of the "easy boss." Smooth diplomacy, the talent of leading men almost without their knowing that they are being led, skillful achievement by winning compromise, were not his methods. His genius was the genius of a Bismarck, of a Roman Caesar, his dominion was based on rugged strength, iron will and tenacity, irresistible determination, indomitable courage, tireless toil, marvelous ability, foresight almost prophetic, and, last but not least, upon those qualities of character which command men's trust and confidence.

Doctor of Sick Corporations

During the last year of his life, his office, or more correctly his library, up town (for at that period he did not usually go down town oftener than once or twice a week) resembled the office of a famous physician during consultation hours. Properties in feeble health were brought to him by anxious parents for prescriptions and treatment; intricate corporation problems were submitted to him for diagnosis; some enterprises that he had treated and restored to good health presented themselves for inspection, having learned the wisdom of remaining under his care; and even big, strapping concerns apparently in perfect health, would drop in and have themselves looked over, as a precautionary measure, and take advice how to guard against sickness and keep in good trim. As his fame increased, owing to some particularly brilliant cure or the patronage of some especially important patient, the number of those that flocked to his consultation rooms became greater and greater—so much so that, to my personal knowledge, many had to be turned away, simply because the famous physician could not possibly find time to attend to them.

That 10% Union Pacific Dividend

Those of you who are familiar with Wall Street events will know that in August, 1906, the Union Pacific dividend was jumped from an annual rate of 6% to 10%, which act unchained a storm of criticism against Mr. Harriman. He was accused of having perpetrated a stock jobbing trick, as the property, it was thought, could not possibly maintain that rate of dividend, and of having bought stock on his advance knowledge, immediately preceding the declaration of the increased dividend, so as to profit, at the expense of other holders, who had no knowledge of what was contemplated, from the rise in the market which was bound to follow. Both accusations were unjustified. No property for the management of which Mr. Harriman was responsible ever reduced its dividend, and the Union Pacific has maintained with ease a distribution of 10% per annum, derived to the extent of 6% from the earnings of the railroad, and to the extent of 4% from its investment holdings. Anybody who knew anything of Mr. Harriman's methods knew that his acts were not the results of sudden impulse, but of plans long prepared and determined on; that he had gone on record at every opportunity as advising owners of Union Pacific stock to retain their holdings, and that if he wanted to increase his own holdings he would do so (as, in fact, he invariable did) in times of depressions and not wait to rush in a few days or weeks before the advent of some favorable consummation. At one of the hearings at which he was examined, he was asked whether it was not a fact that he had bought Union Pacific stock in anticipation of the 10% dividend declaration, the meaning of the question being of course the accusation that he had unfairly taken advantage of his advance knowledge of the contemplated increase. To every one's surprise Mr. Harriman calmly answered "Yes." The examiner turned towards the audience with a triumphant smile and continued: "Mr. Harriman, as you have been thus frank, would you mind telling me approximately when and at what prices you bought that stock which you have just admitted you acquired in anticipation of the increased dividend?" Mr. Harriman smiled faintly in his turn as he answered slowly: "Certainly, I shall be glad to tell you. Let me think back a minute. I bought most of that stock, many thousand shares of it, in anticipation of the 10% dividend declared August, 1906, some eight years before, mainly in 1898, and I paid all the way from 20 to 30 for it. And I bought more of it in subsequent years, whenever prices were low, many thousand shares more; and all the time while I was accumulating it I anticipated the declaration of that dividend."

If a fight was on somewhere, whether it was his or not, he itched to be in it, but he never started hostilities except as an ultimate resource in self-defence, or to safeguard what he conceived to be vital interests of the properties entrusted to his care. He was a born fighting genius, and had he lived in an earlier age he probably would have ranked amongst those who with their swords carved kingdoms for themselves out of the map of Europe and founded dynasties. His generalship, resourcefulness and executive ability were truly marvelous. It is no mere phrase to say, that he never knew the meaning of the word "fear"—either physical or moral. And, whatever the provocation or danger, whatever the weapons used by the enemy—and sometimes they were poisoned weapons—he always fought fair, he never struck a foul blow. His word was equally good to friend and foe, and it was truly as good as his bond. No one, not even his bitterest opponents, ever accused him of having gone back on or given a twisted meaning to his words. Never did he break faith—nor consider himself free to do so in the remotest degree towards those even who had flagrantly broken faith with him. He was loyal to a fault. In more cases than one I have known him to take upon himself the whole brunt of defence or attack, from a fine feeling born of chivalrous consideration for those on whom he might have unloaded part of the burden, and of a proud consciousness of his ability to cope with difficult situations single-handed and unaided. And never have I met any one more utterly free from vindictiveness and malice.

Money Making Incidental

Mr. Harriman, as is well known, left an exceedingly large fortune, yet the wealth which he amassed was but a small fraction of the wealth which his constructive genius created. There was at one time a group of railroad men, of unsavory memory, who made their money out of wrecking and pulling down. Their antithesis was Edward H. Harriman. The vast bulk of his fortune he made by backing the country, in general, and the enterprises to which he mainly devoted his genius, in particular. Any other man, who would have had the same faith in Mr. Harriman's constructive ability, judgment and farsightedness which he had himself, and the courage to back that faith as Mr. Harriman did many a time by every dollar he owned, would have come measurably near to reaping the same financial rewards as Mr. Harriman did, though of course he would also have had to have Mr. Harriman's wisdom and self control in choosing the time when to be bold and when cautious, when to venture far out with every

(Continued on Page 8a, Advertising Section)

Powers of the War Finance Corporation

A Condensed Summary of the Law as Passed by Congress

IN our April 27 issue we published an article, "How the War Finance Corporation Works," outlining its proposed operations and estimating their probable effect on business and investment conditions. In view of the importance of the help in financing which may be rendered by the government through this corporation, we give below a condensed summary of all the provisions of the law as passed:

The War Finance Corporation is under the management of the Secretary of the Treasury and four additional directors appointed by the President of the United States with the consent of the Senate.

Its capital stock is $500,000,000, subscribed by the United States, and paid for out of money in the Treasury, for the purpose of providing credits for *industries* in the United States *necessary* to the prosecution of the war.

It is organized for a period of ten years, provided the war lasts as long as that. Should the war end before that time, the corporation shall terminate its affairs six months after peace is declared.

Two officers were appointed at the time of organization to serve for two years, and two for four years; thereafter the term of office will be four years. Their salary is $12,000 per year each. They are subject to removal by the President. Three directors constitute a quorum.

The corporation has power to make contracts, to sue and be sued, purchase or lease real estate, and complain and defend in any court of the United States.

The purpose of the corporation is to make advances for a period not exceeding five years to any bank, banker or trust company, which after April 6, 1917, has made loans, rendered financial assistance by purchase of bonds or other obligations, or had loans outstanding to any person, firm or corporation doing a business *necessary* to the prosecution of the war.

The amount of this advance shall not exceed 75% of the face value of such a loan, or, in the case of bonds, the value of the bonds at the time the advance was made.

The security for such advances shall consist of a promissory note of such bank, banker or trust company secured by the notes or bonds which are the basis of such advance.

The corporation also has power to make advances up to 100% of the face value of such loan, or up to 100% of the value, as estimated by the directors, of such bonds, provided that in addition to the security mentioned above, additional collateral security, equal to at least 33% of the amount advanced, be furnished as prescribed by the directors.

The corporation may also make advances to savings banks or building and loan associations for periods not exceeding one year, should it think such advances contributory to the prosecution of the war. Such advances must be secured by pledge of securities of a character prescribed by the Board of Directors equal to at least 133% of amount of the advance.

The corporation may also make advances direct to a person, firm or corporation (doing a war business) when such person or corporation is unable to obtain funds through the *ordinary banking channels at reasonable rates*. In such event, the corporation is empowered to make advances for periods not in excess of five years, the amount of such advances not to exceed at any one time an amount equal to 12½% of the capital stock of the corporation plus the aggregate amount of bonds of the corporation authorized to be outstanding at any one time, or an amount equal to 10% of the authorized capital stock of the corporation alone.

Such advances are to be secured by adequate security of such character as shall be prescribed by the Board of Directors, of a value at the time of such advance equal to at least 125% of the amount advanced.

The rate of interest charged in all cases mentioned above shall be not less than one per cent. in excess of the rate of discount for 90-day commercial paper prevailing at the time of such advance at the Federal Reserve Bank in the district in which the borrower is located.

The corporation is authorized to issue its own bonds in an amount aggregating not more than six times its paid-in capital, or $3,000,000,000, to mature in not less than one nor more than five years. The bonds are to bear such rate of interest as may be determined by the Board of Directors subject to the approval of the Secretary of the Treasury, and they are to be redeemable at the option of the corporation.

The bonds will have a first and paramount charge on all the assets of the corporation, which can neither mortgage nor pledge any of its assets.

These bonds have the same tax-free features as are found in bonds of the Second Liberty Loan and subsequent issues—i. e., they are free from all forms of taxation, excepting inheritance taxes, and the income therefrom is free from all normal taxes, while the income from $5,000 principal is also exempt from surtax and excess profits taxes.

Other features of these bonds are that they may be issued payable in foreign money, or issued payable at the option of the holder in either dollars or foreign money, at a rate of exchange fixed by the Director of the Mint. The Federal Reserve Banks are authorized (subject to maturity limitations of the Federal

Reserve Act) to discount the direct obligations of member banks secured by such bonds, and to rediscount eligible paper secured by such bonds and endorsed by a member bank. No discount, however, will be granted at less than 1% above prevailing rates of exchange. Federal Reserve notes issued against the security of such obligations, are liable to a special interest charge by the Federal Reserve Board, which need not be applicable to other Federal Reserve Notes.

The net earnings of the corporation shall be accumulated in a reserve fund, which shall be invested in Government bonds of the Second Liberty Loan or any subsequent issue, or such accumulated earnings may be deposited in member banks to be applied to the redemption of any bonds issued by the corporation.

Prior to the dissolution of the corporation (at the expiration of ten years or six months after peace is declared, as the case may be) the directors may sell and dispose of any securities acquired by the corporation. Any balance remaining after all debts are paid shall be paid into the Treasury of the United States.

The corporation itself shall be free from all taxation except taxes that may be imposed on real property held by it by any State, county or municipal authority.

The United States does not hold itself liable for the payment of any bond or other obligation, or the interest thereon issued or incurred by the corporation.

Capital Issues Committee

The Capital Issues Committee is composed of seven members appointed by the President with consent of the Senate. At least three members must be members of the Federal Reserve Board. Each member shall hold office for such time as the President shall see fit. The salary is $7,500 per year.

The purpose of the Committee is to investigate and pass upon securities offered for sale (in excess of $100,000) for capital purposes only. Borrowing in the ordinary course of business and the renewing or refunding of indebtedness existing at the time of the passage of this Act is not one of its powers.

This Committee permits the issuance only of such securities as it deems compatible with the national interest.

WHY RUSSIA COLLAPSED

You all know of the sacrifices that my country has made in the great struggle against the German militarism and despotism. You know that in dead and wounded alone Russia has sustained the loss of over seven million men. Unfortunately Russia has now fallen under the staggering burden of the war. One thing is certain, the main and fundamental cause of this collapse lies in Russia's lack of economic preparedness. In order to go through such a war as that in which the world is now engaged it is not sufficient to have armies; it is necessary to have also a well developed industrial system and a stable financial organization. This economic weakness which has brought the Russian people to a state of exhaustion was seized upon by the mad and ignorant Utopians, who had very little in common with the great democratic masses of the Russian people, and who, in a conscious or unconscious cooperation with the German General Staff, since the very beginning of the revolution had been demoralizing the Russian Army by their pacifist propaganda, had been poisoning the working masses by a propaganda of class hatred, had been destroying the Russian industry. However, at the present time not only the educated classes which have always been opposed to the Bolsheviki, but even the masses of the workingmen and the peasants are beginning to understand the madness of the Bolshevist policies, that have plunged the country into a state of anarchy and have delivered it into the hands of the enemy. If it is still impossible to speak of the restoration of the Russian front, we can confidently expect, nevertheless, organized attempts of resistance to the German invasion of Russia, especially to their gaining control of that treasure house of natural resources, Siberia.—*From a speech by S. S. Novosseloff, president of the Russian Tanners' Association at the joint convention of the National Association of Tanners' and American Leather Chemists' Association at Atlantic City.*

MONEY--BANKING--BUSINESS

ARTICLE I

The Background and Principles of the Federal Reserve System

By EUGENE E. AGGER,

Associate Professor of Economics, Columbia University, Author of "Organized Banking," "The Budget in the American Commonwealth," Etc.

THERE is always a certain air of mystery about banking to the "man in the street." Sometimes the mystery takes on the color of necromancy or of black art. The whole business of reserves and assets and involved statements of condition strikes him too frequently as a gigantic affair of "hokus-pokus." Yet the principles of banking are not difficult to understand, and in a democratic country like the United States, where banking questions enter so frequently into political discussion, the intelligent citizen ought to make a point of being sufficiently informed to justify an independent expression of opinion. This is especially true of business men and investors, who have a real stake in a well conducted banking system.

Down to the establishment of the Federal Reserve System, banking developed pretty much along "hit-or-miss" lines. It was not that we did not have sufficient regulation. Indeed, in some respects there was too much regulation. But the regulation that we had was not unified, was not consistent and was not based on a thoroughly matured understanding of the part that banking plays in the nation's business life. We had a "national" banking system controlled by the Federal Government at Washington. Then we had as many State banking systems as there were States. There were some 7,500 national banks and over 18,000 State banks. Through laborious exertions a certain uniformity in legislation was obtained by "uniform negotiable instruments acts" and similar measures fostered by the American Bankers' Association. These did not, however, touch the basic structure, and hence it could not be said that we had a real United States banking system co-ordinated and closely knit together in the interests of American business as a whole. We had a loose aggregation of individual banking units.

The Practical Side of Banking

Bank credit and bank credit instruments obviously play today an important part in our business life. Few people carry on business of any kind without coming directly or indirectly into contact with the banking machinery. It is estimated that from 75 per cent to 90 per cent of all our business is conducted by means of credit in some form, bank credit bulking preponderatingly in the total of all kinds used.

Owing to natural changes in business conditions and to influences affecting people's confidence in banks, the demand for bank credit is subject to much variation. It is one thing in a city one day and another thing a month later. Moreover, the demand will shift from credits in the shape of deposits and used by means of checks, to credit in note form when a hand-to-hand exchange medium is wanted. For example, in the fall when the farmer is marketing his crops, he has to have hand-to-hand money to pay off his help. The laborer cannot use checks. Then, too, depositors will often want to "draw money" out of the bank for all sorts of uses. Under such conditions, bank notes are just as satisfactory to them as greenbacks or silver certificates. What they need is money that they can carry around in their pockets.

Why Elasticity Is Necessary

Now it is because of the changeable nature of demand of this kind that it is said that bank credit must be "elastic."

Elasticity means flexibility — expansion when demand increases, contraction when demand falls off. It means also an adequate degree of interchangeability as between deposit credits and bank notes, in order to take care of any shift in demand from credit in the form of a bank deposit to credit in the form of bank notes, and vice versa. When credit fails to expand when demand increases, we have the familiar phenomenon of "stringency" in the money market. Money rates rise unduly; business men find it difficult to obtain accommodation; and the whole machinery of business is interfered with. On the other hand, over-expansion of credit or "inflation" boosts prices unevenly, upsets the purchasing power of many incomes, and causes other serious disturbances. Again, if people want to draw money out of the bank and the bank is prevented in some way from meeting the withdrawals by issuing its own notes, it is forced to pay out cash from its reserves. But if a bank loses cash from its reserves, it must reduce the credit that it can extend and the result again is stringency and business embarrassment—sometimes also popular panic and thereafter complete depression.

It is because of this variable character of demand that bank credit must be elastic. Yet such elasticity can be obtained only when that upon which bank credit itself rests is flexible and responsive. From the bank's point of view credit can be extended, first, when adequate cash reserves are available for the purpose, and second, when proper forms of assets on which to base the credit are forthcoming. Mobility and elasticity of credit mean mobility and elasticity of cash reserves and of the assets satisfactory for the bank whose depositors and note-holders have the right without preliminary notice to demand cash.

Experience has demonstrated that from the point of view of cash reserves, nothing succeeds so well as "mobilization," namely, bringing all available reserves together to be used as a unit. This does not mean necessarily that the actual cash must be heaped in a single pile, but that the control of the credit based on all the cash be sufficiently unified to permit the free flow of credit from place to place, and to insure adequate expansion and contraction when demand changes. But experience has also demonstrated that just as important as mobilization of reserves is the creation in the field of business of mobile assets—commercial paper, etc., which the banks can handle in somewhat the same way as they do their reserves. Behind every dollar in deposits or in outstanding currency a bank must have actual cash and other sound assets. The proportions run possibly from 5 to 25 per cent. in cash, with the balance in other assets. If the credit is to be mobile and elastic, the cash reserves must be flexible—but so, obviously, must the other assets also be.

Lastly, since business is carried on over wide areas by countless individuals, the use of bank credit by them introduces complex problems of clearing and exchange. There are firstly, the problems of domestic clearing and exchange, which deal simply with payments between different places in the same country. But foreign clearings and exchange involve complexities based on the use of different kinds of money, as well as those growing out of mere separation of places. A free flow of credit from place to place at home, as demand varies, depends much upon the proper organization of the clearing and exchange machinery. Mobilized reserves, or centralized control of reserves supply the simplest basis for such machinery. In like manner, through operations in the foreign exchange market, they permit also a safeguarding of a country's whole reserve position in its dealings with other countries.

Advantages of Unification

It was because we had no such unification and co-ordination that in the disastrous panic of 1907 it was seen that in the United States our banking machinery had completely broken down. Banks had come to be predominantly depended on in carrying on our business. Yet in the study made of our system by the National Monetary Commission after the 1907 panic, the Commission pointed out seventeen weaknesses, all of them traceable to lack of unity and co-operation in the banks themselves and in the business practices in the fields which touch banking.

The criticisms of the Monetary Commission cannot be discussed here in detail, but

they can be very briefly summed up.

Our banking credit was inflexible and inelastic. This was due in the first place to our system of widely scattered reserves. The bulk of the banking reserves in the country were scattered among 25,000 national banks and state banks and trust companies. The separate banks had no adequate facilities for helping each other out when sectional needs varied, and as each was thus thrown entirely on its own resources in times of serious trouble, there was widespread contraction of credit facilities by the banks and useless hoarding of reserves. For the bank that did not have a surplus of reserves, the prohibition of further credit extension when reserves reached the legal minimum of 25 per cent. or whatever it might be, constituted what has been called a "dead line." Beyond the "dead line" its reserves were useless as far as any new aid to its customers was concerned.

Scattered reserves were aggravated by what may also be called the "scattered" character of the other assets. In other words, most of the investments that a bank held in addition to cash on hand, to buttress its own credit, were of such a nature that they had to be held until maturity, and could not be used to pass freely from one bank to another in order to supply a mobile basis for credit. Single name paper, which predominated in this country, was good only in the neighborhood where the maker was known. The so-called commercial paper market in the United States was open only to relatively few well-known firms. Hence as a first line of liquid assets in secondary reserves, banks had often to depend excessively on call loans which the average business man could not use. and the bulk of the banks' assets had to be held until full maturity.

Bank notes offered a special difficulty. Instead of permitting banks to base note issue on at least a proportion of the normal assets that come to it in the ordinary course of business, the law required the national banks to go into the market and buy United States bonds. Then there were restrictions on the total amount of notes that could be monthly withdrawn from circulation. Bank currency was therefore inelastic. It could not adequately expand when demand increased, because the bond market had to be reckoned with. Similarly, because of the limitation of redemption, banks hesitated to put out more notes than an amount that could be expected to remain in circulation. Instead therefore of showing marked seasonal variations in outstanding issue, the national bank notes as a whole tended steadily to increase. State bank notes were unavailable, because ever since 1863 a federal tax of 10 per cent. had been imposed on them.

Again, we had in the United States no well-organized system of domestic clearings and exchange; and in the foreign field not only did we not have any authority that could protect the national gold reserves through proper supervision of credit at home and through operations in the foreign exchange market, but there was no credit machinery for properly financing and assisting our foreign trade.

The analysis of the weaknesses of the banking system as it stood after the panic of 1907 suggested the main lines of reform.

Main Purpose of Federal Reserve System

The first thing aimed at in the organization of the Federal Reserve System was the mobilization of reserves. Yet it was believed that the outward appearance of centralization had to be avoided; so it was provided that the country should be divided into from eight to twelve federal reserve districts, in each of which, in a selected city, a new bank was to be started, called the "Federal Reserve Bank." The capital of the Federal Reserve Banks was to be subscribed as far as possible by the banks joining the system. If the banks failed to subscribe the minimum of $4,000,000 required, the public or the government was to make up the discrepancy. National banks were virtually compelled to join the system, but the State banks were to come in only if they so chose. Besides such cash as the capital subscriptions might bring, the bulk of the reserve funds brought together in the reserve banks were to come from the compulsory deposit in them by the member banks of the member banks' required reserves, and also through the deposit in the reserve banks of government funds. Individual deposits in the reserve banks were not, however, to be made. The

reserve banks were given the character of banks and of the government.

Having centralized in the reserve bank the reserves of each district, the next problem was to make the reserves accessible. This was done by making a member bank's balance with the reserve bank equivalent for the member bank to cash in its own vaults. Hence all that was necessary for the member bank to do, when it wished to strengthen its reserve for any purpose, was simply to increase its balance with the reserve bank. This it could do by obtaining an advance from the reserve bank by rediscounting some of the eligible paper carried in its portfolio or by obtaining an advance on the basis of its own note. The final cash behind the credit was thus in the hands of the reserve bank. This enabled the reserve bank to come to the aid of the member banks as long as the required reserves were maintained by the reserve banks, and also permitted the reserve banks in fixing their own rates to determine the rates that would tend to prevail in the market. The greater the dependence of the member banks upon the reserve banks, the greater the supervisory power of the reserve banks. Similarly, the more completely the State banks come into the reserve system, the more effective will its aid and control be.

On the other hand, if the demand of the bank's customers were for hand-to-hand currency, provision was made for the issue by the Federal Reserve Banks of "federal reserve notes." The law also provided for the issue of what in distinction are known as "federal reserve bank notes," but these are intended as a temporary form of issue to facilitate the elimination of the old bond-secured currency and to help effect a transition to a new type. Federal reserve notes were to be issued to member banks whenever a member bank wished to draw down its balance in currency. By re-discounting eligible paper or by borrowing on its own note with paper collateral, the member bank could obtain practically all the notes that it needed, and the drawing down of forms of cash available for reserve purposes was thus avoided.

New Reserve Requirements

There were included in the act provisions regulating the reserves to be maintained, but these were not of the old "dead line" variety. Reserves maintained by the member banks against deposit liabilities were finally fixed at 13, 10 and 7 per cent. for central reserve cities, reserve cities and country banks, respectively. The requirement for the reserve banks for their deposits was 35 per cent. in "gold and lawful money." The higher percentage for the reserve banks is due to the fact that deposits at the reserve banks are reserves for member banks. The reserve requirement for federal reserve notes was fixed at 40 per cent. in gold—not "gold and lawful money," as with deposits. But to prevent these fixed requirements from acting as rigid limitations upon the banks in the use of their resources, it was provided that under the supervision of the Federal Reserve Board, at the head of the system, the reserve provisions could be temporarily suspended. In case of such suspension, however, in order to avoid the possibility of inflation, it was provided that the board had to levy a tax to be added to the discount and loan rates. In like manner, owing to the peculiar tendency of notes to remain in circulation, whereas checks based upon deposits quickly get back to the banks on which they are drawn, it was provided that member banks could not count federal reserve notes as a part of their required reserves, and federal reserve banks were forbidden, under a 10 per cent. penalty, to pay out the notes of any other federal reserve bank.

But what about the other assets besides cash which are essential to real elasticity? Here the law went as far as mere law could in laying the foundation for new practice. It endeavored to provide for new forms of commercial paper so standardized that it could pass freely from hand to hand. While not forbidding the use of single name paper, it encouraged the development of bankers' acceptances and similar forms stronger and more widely acceptable than single name paper. Moreover, it emphasized the development of "commercial" as distinct from speculative and investment paper. But it kept the whole matter flexible by putting the power of definition of eligible paper, within the broad lines laid down by the act itself, in the hands of the Federal Reserve Board.

The theory of the act was therefore that member banks could, in dealing with their own reserve banks, obtain funds to strengthen their own reserves or, for the purpose of meeting demands for currency, obtain circulating notes. But proper assets had to be kept on hand for the purpose. The law went further. If a reserve bank itself approached the limit of its resources, it was provided that under the supervision of the board, voluntary or compulsory rediscounting by one reserve bank for another might be arranged. Through this procedure practically unified control of the reserves in the whole system was established, while at the same time related control of mobile assets was also put into the hands of the board.

Powers of the Federal Board

The Federal Reserve Board was thus intended to unify the whole federal reserve system. It is the most powerful administrative board in the world. Its function is to supervise practically every aspect of the reserve system, reserves, assets, rates, etc. Its members are presidential appointees, although two, the Secretary of the Treasury and the Comptroller of the Currency, are *ex officio* members. Through its control over rates, etc., it was intended that the board should control as far as possible the whole question of credit expansion.

To assist the Federal Reserve Board a Federal Advisory Council was provided. This is made up of one member from each district, chosen by the reserve bank of the district. Its powers are advisory only.

Recognizing the importance of clearings and exchange, the act made broad provision for a scientific system. It provided that the reserve bank in each district could, under regulations issued by the Federal Reserve Board, constitute itself a clearing house for its member banks. The handling of member banks' reciprocal liabilities could thus be attended to through a simple shifting of balances on the books of the reserve bank. To handle items arising between banks in different districts, the act provided that the Reserve Board itself could act as a clearing house for the reserve banks, or that the Reserve Board could designate any one of the reserve banks to act in that capacity. In other words, inter-district as well as intra-district clearings were provided for.

In like manner, the importance of foreign operations were not overlooked. To assist in the development and financing of foreign trade, the act authorized the opening of foreign branches by member banks as well as by reserve banks, the whole matter being, of course, under the regulation of the Federal Reserve Board. Moreover, for the purpose of protecting reserves at home, a series of provisions were formulated. The reserve banks were authorized to buy and sell foreign exchange in the open market in order to enable them, if possible, to prevent foreign exchange rates from advancing to the gold export point. They were authorized to open foreign branches or accounts in order to facilitate this business, to buy and sell, borrow and lend exchange and gold, and thus generally to participate on an important scale in actual foreign operations. The Federal Reserve Board itself in its control of the discount rate, in so far as the official rate could be made effective in the market, was also put in the position of protecting home reserves not only by checking undue expansion of credit at home, but also by influencing foreign exchange rates to the full extent that such rates could be made to respond to changes in the discount rate.

Without going into detail it may also be said that the law provided for adequate examination and publicity. This was considered essential for the maintenance of full popular confidence. Reports were required weekly from the Reserve Board concerning the reserve banks. Examinations of and reports by the member banks were also amply assured. Indeed it has been suggested by some that the law goes farther than necessary in this matter.

Looking, therefore, at the federal reserve system as a whole, it may be said that its planning was astute and thorough. Its actual operations and its promise for the future will be briefly discussed in subsequent papers.

Leading Opinions

About Financial, Investment, Banking and Business Conditions

E. N. Hurley on Gov't Control.

Edward N. Hurley, chairman of the United States Shipping Board, in an address before the National Coal Association, said regarding the coal and shipping problems:

"It was absolutely necessary for the Government to step in and take over control of the coal industry. No man can say how long the Government may exercise its supervising control over the production and distribution of coal, but most all business men now appreciate that the Government is going to take an important part in our affairs hereafter. Therefore, we do not face the question of the old methods of doing business, but we must all adapt ourselves to the new conditions that now prevail.

"In past wars, victory was thought largely a matter of purely military strategy. Under our highly organized system of today the whole weight of the nation must back up with its full resources, military and naval action. Otherwise there can be no effective action. This means that everything of basic importance needed to carry on the war must be operated as a unit. Coal is a fundamental. Transportation for the carrying of coal and all other commodities is another fundamental. Our Government is fast going ahead with its process of co-ordinating railroad systems and inland waterways, lake and coastwise ocean transportation. Railway equipment is being provided. Fleets of ships and vessels have already been speeded from our shipyards and many more will follow. You should examine critically your own management. In my judgment, 50 per cent. of the inefficiencies of coal production today is due to poor management. Many of your properties are well equipped and well managed, and might serve as models for all the world. They set a splendid standard for the efficiency committee to measure up to, yet you know that there are hundreds of mines that are not well equipped; that are indifferently operated; that are loading poor coal; in short, that are poorly managed. They constitute a fertile field for your efficiency committee to cultivate."

—N. Y. *American*

UP TO AMERICAN LABOR

"Steel Industry on Better Basis"—Gary

E. H. Gary, president of American Iron & Steel Institute, speaking at its convention at Waldorf-Astoria, said the suspicion with which the government authorities had in the past regarded the iron and steel industry has now been dissipated, and government and steel producers are working in complete harmony and mutual understanding.

Judge Gary also discussed the question of taxation, which, he said, was likely to be much higher, there being talk of doubling the excess profits and income taxes. He was of the opinion rather that steel men would not care what the extent was or will be to defend the rights and liberties of the world, provided they were equitably distributed and the money wisely expended.

Conditions of steel industry on the whole and prospects for business were good, Judge Gary said. "We at least have a steady customer, and one able to pay.

"Steel men have marched up to point of obligation with most loyal, patriotic and fair disposition, having in mind the one idea of trying to serve the country, in total disregard of personal gain or success. Whatever may happen in the future to us and to our business, we have the satisfaction of knowing that we did our best. This disposition on the part of steel people has had its effect on Washington. There have been times in Washington when our whole business was criticised unfavorably.

"You have read in the newspapers that it was the disposition of the governmental officials to take possession of the iron and steel industry and manage it, and you have read that it was proposed to do a good many things which seemed to you unfair.

"It seemed to us that there was great danger of our business being jeopardized, but by discussion we have been able to avert disaster at least and to secure fair and reasonable treatment from Government officials.

"We find today high officials coming to steel men with statement that they want to co-operate with them. They want our assistance. They depend not only upon our loyalty, but upon our ability to assist the Government in this time of great distress. It is our hope that the United States Government is going to foster and assist enterprise instead of attacking it.

"We are doing another thing. The Government is permitting us, assisting us and urging us to do it. We are day by day putting our affairs in better shape. We are being better prepared for the future."

"Banking Conditions Sound."—G. W. McGarrah

"Banking conditions are sound and, speaking generally, the situation at the moment is more satisfactory than in the period immediately succeeding either the first or the second Liberty Loan," Gates W. McGarrah, president of the Mechanics & Metals National Bank of this city, stated recently.

"The Third Loan having gained a remarkably wide distribution, the banks have had their financial strength conserved, and thus found it possible to use a portion at least of their resources for general purposes, while still doing their full share in supporting the Government in financing the war.

"Nevertheless, continued firmness for an indefinite period is in prospect for the money market. In all industrial communities, particularly where manufacturing enterprises of the group recognized as 'essential' to the war are running at full capacity, the need for funds is at a maximum, while in the agricultural regions high prices for material and labor have compelled farmers to borrow very freely to enable them to carry on their spring work.

"The situation withal is as satisfactory as could possibly be expected in the face of the very abnormal conditions prevailing, and bankers throughout the country are entitled to great credit for the care and good good judgment which they have exercised in the conduct of the financial institutions generally. It might not be amiss to suggest, however, that the longer the war continues, the more constant must be the care and attention given to all financial requirements, and the public quite as well as the bankers should appreciate this fact."

"Sounder Basis for Business"—L. E. Pierson

"To the nation and to all interested in protecting its interests, in the present gravest emergency in its history, the American Trade Acceptance Council would say that the development of the trade acceptance method in American business not only is important and urgent, but indispensable."

This message was brought to the Maryland Bankers' Association, in convention, by Lewis E. Pierson, chairman of the council and chairman of the Irving National Bank of New York. "If we are to win this war and protect the national interest in the world commercial contest which will follow, we must put the business of the nation upon a sounder basis, a basis which the founders of the Federal Reserve System provided and of which to the present time we have not availed ourselves," Mr. Pierson asserted.

"We believe that the trade acceptance method when developed will improve American banking and business conditions generally, and we hope that its development can proceed without creating any harmful disturbances in the business of the country. Therefore we wish to avoid rush and hurry.

"It is not a fad or novelty which we propose, but a tested and tried business method bearing, in full harmony with the Federal Reserve System, directly upon the present and future prosperity of the entire nation."

—Detroit *News*

EXCESS BAGGAGE

"Revise Income Tax Law"—M. F. Frey

Now that Congress has definitely decided to revise the tax laws, chiefly with the view of producing additional revenue, bankers and others are calling attention to the urgent need of simplifying the provisions of the Income Tax law so that the same may be more intelligible and more easily administered.

Morris F. Frey, tax expert of the Guaranty Trust Company, says that much of the confusion which existed in the administration of the law was due to the complexities of the act and not to the fundamental principles of the tax. "By rewriting the law," he said, "many of the intricacies and inconsistencies, which have been brought about to a large extent by amendment from time to time, may be eliminated and the fundamental principles of the tax and the distribution of the burden upon the taxpayer remain unaffected."

Under the income tax law as it stands today there are four separate taxes (exclusive of the excess profits tax), namely: the normal tax under the act of Sept. 8, 1916; the normal tax under the act of Oct. 3, 1917; the surtax under the act of 1916, and the surtax under the act of 1917. The confusion necessarily incident to the assessment of these numerous taxes is declared to be evident to everybody, and according to Mr. Frey, there is no reason why they should not all be consolidated into one graduated tax.

Great War Need for Metals

Allied superiority in their supply of metals most needed for carrying on the war must, it seems, in the long run be a deciding factor in our favor as against the less favorable situation of the Central Powers, in the opinion of E. A. S. Clarke, president of the Lackawanna Steel Company, who addressed the National Foreign Trade Convention, held at Cincinnati. Mr. Clarke, citing figures to show the expansion of steel production, said that the same general conditions obtained in the case of copper, lead, tin and zinc. The requirements of the Allies for all these metals have been met.

"The great increase in the production of iron and steel, while due in part to the full operation of existing facilities, is also, to a large extent, due to very considerable additions to existing plants, as well as to the construction of entirely new plants. These increases in capacity have naturally followed the lines indicated by demand, and it is gratifying to note, in view of the enormous demand that exists for ships, the plate-making capacity of the country has been nearly doubled. It now stands at about 6,000,000 tons per year, the equivalent of 18,000,000 deadweight tons of ships, with approximately 1,000,000 tons of additional capacity under construction which will all be in operation before the end of the year.

—*Financial America*

THE LEMON

"Practically no new plants or mills have been built for the manufacture of shell steel. Shell steel, while not made in quantity in this country before, is a quality of steel not greatly different from other grades which have long been manufactured in the United States, and requires only careful, conscientious supervision for its successful manufacture.

"The steel industry has stood ready at all times to increase capacities to whatever extent needed to supply the requirements of our Government and our Allies, and will not be found wanting; there will be sufficient steel produced for all uses."

"Better Express Service"—G. C. Taylor

George C. Taylor, president of the American Express Company and selected to act as President of the new express corporation, said recently:

"Hereafter the express companies will eliminate the individual identity which has separated them for the last three-quarters of a century and offer to the Government and to their joint patrons a unified, single

express service. In the future, merchants, manufacturers, and individuals need merely specify 'by express' and the entire man power and vehicle power of the express world will respond to their call.

"At no time in the history of the railroads has the volume of express traffic been so great as it is today, the business reaching a total during the last fiscal year of over $200,000,000.

"Already the vast terminals now maintained by the various companies are being unified for a practical saving of time and transfer.

"The new move will bring into one organization over 100,000 men now trained in express service. It will be the policy of the company to maintain a broad gauge attitude toward its employes, many of whom have spent their lives in the service, and thousands of whom have made great personal sacrifices in carrying the immense burden of the last three and a half years."

Heavy Stock Sales in May

Total transactions in stocks on the N. Y. Stock Exchange last month were the heaviest in seventeen months, aggregating 21,291,200 shares.

The transactions in stocks in shares, as compiled by Dun's Review, are given herewith for each month of recent years:

The *Iron Age* hints at a difference of opinion between the War Industries Board and steel makers over the amount of steel which the Government can absorb in a given period. At the same time it is noted that the manufacturers have set to work to increase rapidly deliveries of plates, shell steel and rails, in which the demand is pressing.

"If all the steel in the surprising total made up by the War Board," this periodical says, "can be applied to ship, projectile, track, car, locomotive, farm implement, oil well, structural, and other war uses in the specified delivery period, there can be no escape from the conclusion that little steel can be had for ordinary consumption this year."

"Federalizing Bank Resources?"—J. H. Mason

Federalization of the banking resources of the nation along lines similar to the seizure of the railroads, to make them give the largest possible service to the country, was predicted by John H. Mason, President of the Commercial Trust Company of Philadelphia, in an address before the Trust Company Section of the Pennsylvania State Bankers' Association at Atlantic City.

He prophesied that it would come about

	1918	1917	1916	1915	1914
January	13,744,800	16,942,000	15,901,200	5,076,200	10,088,900
February	11,456,800	14,063,900	12,080,100	4,383,400	6,220,000
March	8,378,000	18,986,000	15,173,300	7,862,300	5,855,300
April	7,385,300	14,682,600	12,635,600	21,023,000	7,145,300
May	21,291,200	20,176,400	16,741,000	12,739,800	4,757,400
June	....	19,536,800	13,106,100	11,004,000	4,002,800
July	....	13,167,600	9,414,200	14,371,600	7,920,900
August	....	11,775,900	15,334,600	20,432,400	....
September	....	14,020,000	30,768,400	18,399,300	....
October	....	17,984,000	28,919,500	26,679,000	....
November	....	14,595,000	35,710,000	17,634,300	....
December	....	12,824,500	32,704,200	13,723,000	1,875,000
Total	....	188,754,700	238,488,200	173,328,300	47,865,600

High Level For Steel Output

The stimulation imparted to the steel and iron trade by the insistence of war demands, and the emphasis laid on a greater output by the War Industries Board, is finding reflection in production. The month of May promises a greater outturn of pig iron, billets, and finished products than any of the last twelve months, according to reports from the trade centres.

soon and that it should be anticipated. "If I am not greatly mistaken, there is a very pronounced trend toward the Federalization of our banking system," Mr. Mason said. "We can best meet it by looking it straight in the face and helping to guide it into the channels in which it should move. We must face these problems openly and squarely and with no view but the interest of the nation. The time for viewing these problems of finance in a selfish way has gone.

"I can figure that if the Liberty Loan had failed, we as bankers, would soon find our-

selves occupying virtually the same position as the railroad men. The Federal Government practically would conscript us because we had not co-operated. We know that the railroad men strove to keep their separate interests paramount to the interests of the Government, and if the bankers should evince any tendency to move in that direction we may know exactly what to expect."

—N. Y. *Herald*

FORCE! FORCE! FORCE!

Expert Financial Opinions

Goodbody & Co.—Whatever uncertainty there may be as to the values of industrials, while the revenue act is being framed, we see but little uncertainty as to most railroad securities. Railroad bonds and stocks that have received their interest and dividend payments regularly during the last three years look like certainties to us for many years to come. Under the Government guarantee they are practical certainties for the period of the war, and for 21 months thereafter, while, because of the great increase in freight and passenger rates, they are practical certainties for many more years to come, whether or not the railroads go back to private control.

We strongly advise the purchase of the scores of such railroad bonds and stocks that yield from 7 to 10% on their present prices. To this list we would add St. Paul preferred and Missouri Pacific preferred, both of which will probably get their full dividends.

Hayden, Stone & Co.—It is disappointing that there should have been no increase in the price fixed for copper. It seems a logical argument that if 23½ cents was a fair price eight months ago, it certainly is not one today. It is probably well within the truth to say, that the copper industry, as a whole, is making rather less profit today than under normal conditions, with the metal at 15 cents per pound. This is equivalent to saying, that adherence to the 23½-cent price endangers a maximum production.

At the moment, we should be inclined to wait until the market reaction has run a little further before making substantial commitments, but, in a broad way, we should take the position that, barring disaster abroad, and the danger of this is steadily diminishing, the purchase of stocks on any further recession would be fully warranted, speculatively. From an investment standpoint, as we have repeatedly pointed out, there are innumerable attractive opportunities.

J. S. Bache & Co.—The Director General's announcement of his new plan for operation of the railroads through Federal managers instead of under railroad presidents is one more, possibly arbitrary, but nevertheless for the purposes sought, thoroughly efficient step toward concentrating the power of transportation under one head, to be operated with the least cost and the best results.

It is assuring to read in this proclamation that the policy of the Director is, among other things, to "give the greatest possible reassurance to the stockholders that their just interests in the properties will be respected and that nothing will be needlessly done to have even the appearance of impairing their just rights."

Greenshields & Co. (Canada)—The situation in the investment markets has been undergoing a decidedly satisfactory change. We have been noting in the *Review* for several months back that the prolonged liquidation in the Canadian and American markets had depressed prices of high-grade securities to a level at which purchases could be freely recommended, irrespective of whether still lower prices might not be reached.

In Canada the business situation has continued buoyant. The financial situation has been improving steadily as the effects of the big Victory Loan operation of last autumn began to wear off. With a well liquidated position in the market, security prices have been recovering gradually but steadily since the turn of the year in response to buying by careful investors, rather than to any extension of the speculative interest.

BONDS AND INVESTMENTS

Are Southern Pacific's Bonds Cheap?

Wide Differences in the Issues Available to the Investor—The Secured Bonds—Prospects for the Convertibles

By G. C. SELDEN

THE yields on the active issues of Southern Pacific bonds, including the Central Pacific 4s which are guaranteed by the Southern, are shown at current market prices in the table.

YIELD ON SOUTHERN PACIFIC BONDS

	Price	Yield
So. Pac. ref'g 4s	80½	5.2%
Cent. Pac. gtd. 4s	80½	5.3
So. Pac. conv. 5s	93½	5.6
So. Pac. coll. 4s	73	5.9
So. Pac. conv. 4s	80	6.5

This system has been showing splendid increases in earnings and has been for the most part free from the difficulties of the Eastern roads. The per cent earned for the common stock, for example, which was between 7½ and 8 in 1914 and 1915, rose to 11.3 for the year ending June 30, 1916; to 13 for the year ending Dec. 31, 1916; and was approximately 15.7 for the calendar year 1917. The latter figure is the best ever shown by this company. The previous high record was 13.5 in 1907, an exceptional year.

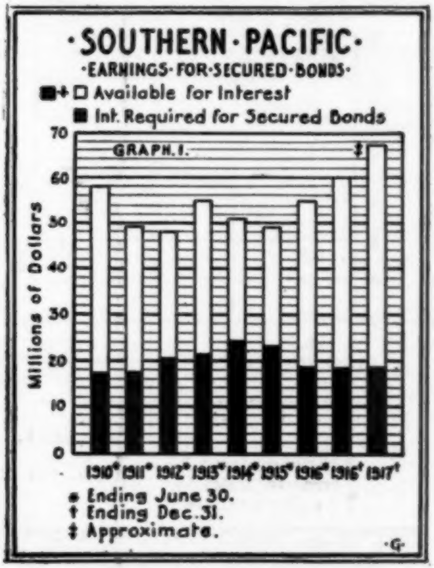
At the same time earnings have been increasing so rapidly, the company has been able to reduce the interest charges on its secured bonds from nearly $25,000,000 in 1914 to about $19,000,000 at the present time. On the other hand, a new interest charge of $2,725,000 has been added by the issue of the 20-year convertible 5s in 1914.

The Mortgage Bonds

The manner in which the position of the company's bonds secured by mortgages or collateral has been strengthened is shown in Graph 1. It will be seen that in 1914 the sum available for interest charges was about 2.1 times the interest requirements on secured bonds, while in 1917 it was approximately 3.6 times.

The Southern Pacific refunding 4s, therefore, are in a very strong position, and the market recognizes that fact by quoting them at a price which makes the yield, on the basis of holding to maturity, only 5.2 per cent.—which is of course very low for present money conditions.

The Central Pacific 1st refunding 4s, which are guaranteed principal and interest by the Southern Pacific, are equally strong. In fact they are possibly a little stronger, for in addition to the Southern's guaranty they have the earnings of the Central behind them. These earnings are sufficient to protect the bonds regardless of the guaranty.

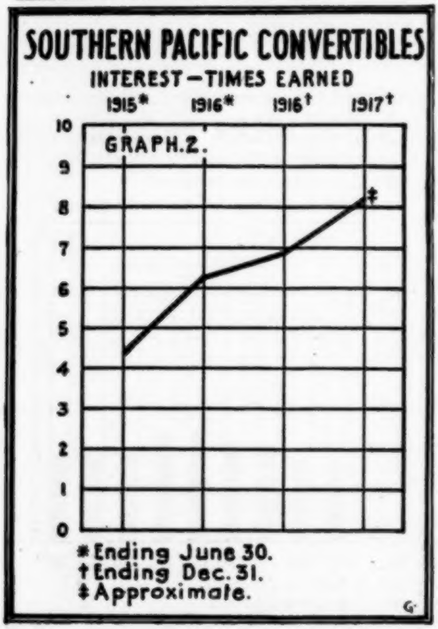


The collateral 4s are based on Central Pacific stock as collateral. There are $34,-218,000 of them outstanding, secured by deposit with the trustee of $17,400,000 pre-

ferred and $67,274,000 common stock of the Central. The earnings on the Central stock are usually double the requirements on the bonds. Even in the poorest of recent years, which was 1915, earnings were one-third in excess of the interest requirements on these collateral 4s. They are selling now to yield 5.9 per cent. If they should drop to a 6 per cent. basis or over they would be well worth careful consideration.

The Convertibles

The most interesting of Southern Pacific's bonds are the convertible 4s and 5s. They are of course without mortgage security, but if we figure the earnings on these two issues in a manner similar to the customary way of reckoning the per cent. shown for a stock, we get the results given in Graph 2. That is, after deducting from the company's earnings the necessary



amount to meet the charges on the various issues of secured bonds, there was enough left in the very poor year 1915 to pay the interest on these convertibles more than four times over, and in 1917 more than eight times over.

The convertible privilege on the 4s extends only until June 1, 1919, and is into stock at $130 for each share of $100 par value. Since the present price of the stock is about 85, the prospect of its selling above 130 within a year is not especially bright, and the convertible privilege therefore has no influence on the price of the bond.

Looked at solely from the point of view of its value as bond, without considering it as convertible, it would not sell to yield 6.5 per cent. under any ordinary investment condition. After the war it will probably advance enough to bring the yield down to 6 per cent. or 5½ per cent. Investors who pick up these bonds while they still yield 6½ per cent. will be making an advantageous purchase.

There is no reason why the convertible 5s should not sell at about the same yield as the 4s, except for the value of the convertible privilege. These 5s do not mature until 1934, and they are convertible into stock at par until June 1, 1924. Southern Pacific is a growing company and there is a very good probability that the stock will sell above par before then.

One of the things that is holding the stock back just now is the Government suit to recover oil lands having an estimated value of $500,000,000 or more. The amount of common outstanding is $272,823,000; so if this suit is decided in favor of the company it would mean a tremendous addition to the assets behind the stock.

The present yield of 5.6 per cent. on the convertible 5s is too low compared with other bonds, if looked at purely from the investment point of view. It is speculation on the probable value of the convertible privilege that causes the bond to sell so high. On the other hand, an assured yield of 5.6 per cent. on an investment which may also return a large profit if events turn out favorably is not to be despised.

The only one of these bonds which can be called positively cheap is the convertible 4. The refunding 4s and the Central Pacific guaranteed 4s are selling high enough. There are better bond bargains to be had, I should say. The collateral 4s are desirable at the price without actually being cheap. The convertible 5s are attractive because of their speculative feature.

Getting a High Interest Yield

A Careful Selection of Railroad Bonds and Railroad and Industrial Preferred Stocks

By WILLIAM T. CONNORS

ASIDE from foreign government bonds, some of which were discussed in the last issue in the first section of this article, there are three kinds of listed securities where high yields are now obtainable, accompanied with apparent safety and good prospects. These are as follows:

(1) Selected Railroad Bonds.
(2) Selected Railroad Preferred Stocks.
(3) Selected Industrial Preferred Stocks.

I do not take up common stocks because I am dealing here with securities on which the interest or dividends are more strongly buttressed than is usually the case with dividends on common stocks; in other words, with a class of securities commonly designated as higher grade.

Earnings on common stocks naturally fluctuate more widely than on preferred stocks or bonds, because the full amount of

The principle on which I make the selections given herewith were explained in the last issue. In a word, I have picked out these securities on the basis of their prospects rather than their history. I have chosen bonds and stocks which are now backed up by good earnings, and for which, so far as we can estimate the future, earnings are likely to continue good.

High Yield R. R. Bonds

These are shown in Table I. The first group are mortgage bonds and three of them, as will be seen from their names, have first liens on their respective properties. The other two, the Chesapeake & Ohio and Colorado & Southern bonds, are farther from the rails. But in all these cases the principal attractiveness of the bond lies in the earnings and outlook for the property.

TABLE I—SELECTED HIGH YIELD R. R. BONDS.

	Current Price	Annual Income	Yield to Maturity
Chesapeake & Ohio conv. 4½s, 1930	75	6%	7.7%
Chicago Great Western 1st 4s, 1959	58	6.9	7.2
Colorado & Southern ref. 4½s, 1935	71½	6.3	7.5
Hudson & Manhattan 1st 5s, 1957	59	8.5	8.8
St. Louis & San Fran. prior lien 4s, 1950	59	6.8	7.3
Income bonds (interest payable only when earned):			
Seaboard Air Line adjustment 5s, 1949	54	9.3	9.7
St. Louis & San Fran. adjustment 6s, 1955	66	9.1	9.3

bond interest and preferred stock dividends must be taken out of the company's income before the common stock can get anything at all. A yield of 7½ per cent or more on a preferred stock like Bethlehem Steel new preferred, for which 92 per cent was earned in 1917, or Virginia-Carolina Chemical preferred, on which 23 per cent was earned, is much better than the same yield on a common stock for which a similar per cent was earned, because these preferred stocks are followed by dividend-paying common stocks which would be the first to lose their dividends in case of a falling off in earnings.

The remaining two are "income bonds" which, properly speaking, are not bonds at all, but a sort of preferred stocks on which the company is obliged to pay dividends if the money has been earned. This is not true of the ordinary preferred stock on which dividends can be discontinued at will. But in case the money has not been earned to pay the interest on an income bond this does not throw the company into receivership.

The higher yields on these income bonds show, of course, that investors do not regard them as highly as they do the first group of bonds. They belong to a different class

and are not as strongly protected as the other securities mentioned in this article. Nevertheless, they are worthy of consideration.

The surplus above all interest charges earned by the five companies whose mortgage bonds are included in the first group during the three-year period on which the Government bases its guaranty of earnings until 21 months after the war is over, was from 60 per cent to 100 per cent, except for the Hudson & Manhattan 5s, which had a surplus of about 35 per cent over their interest requirements.

Seaboard's interest charges, however (excluding the adjustments) were earned only 1¼ times; but the interest on the adjustment 5s themselves was earned nearly twice after other charges. This was because the amount is so much smaller—less than one-fifth of the total interest charges of the road. For the same reason the interest on Frisco's adjustment 6s was earned more than twice over.

Chesapeake & Ohio's earnings for 1917 were about 11¼ per cent on the common stock, and the average for the last three years was about 10½ per cent, which compares with an average of 5.6 per cent for the preceding three years. This shows plainly the growing character of the road. In 1917 the income was about 1¾ times all interest charges. This, combined with the Government guaranty, puts all its bonds in a strong position. The convertible privilege probably has no value, since it is for stock at par before February 1, 1920.

Chicago Great Western's earnings grew very satisfactorily up to the end of 1916, for which year they were 5.3 per cent on the preferred stock, but this figure fell to 3 per cent in 1917. Under the Government contract the preferred will get about 3½ per cent. This will mean that the interest on the entire funded debt will be provided for about twice over. So this bond looks safe enough, and it is also a first lien.

The great rise in Colorado & Southern's earnings was shown in the graph with the last article. All interest charges were earned more than twice over in 1916 and 1917.

Hudson & Manhattan 5s are a first lien on both the tubes and the terminal building, and the earnings of the company are remarkably stable. The principal attractiveness of the bonds lies in the increased business which must apparently come to this company when the new subways are completed, with stations directly communicating with the Hudson Terminal. The outlook for this bond is especially good considering its yield.

Frisco's interest charges (excluding income bonds) were earned about 1 2-3 times in the year ending June, 1917. Since 1915 the company's earnings have risen rapidly and the prior lien 4s appear to be in a safe position.

Both the Frisco and the Seaboard are heavily bonded. The adjustment bonds of these companies mentioned above should be looked upon as preferred stocks on which dividend requirements are being covered about double. The interest on both these issues is cumulative and it seems safe to assume that it will be earned on the average, taking one year with another, under any conditions likely to arise.

TABLE II—SELECTED HIGH YIELD R. R. PREFERRED STOCKS.

	Earnings	Approx. Earnings on Govt. Basis	Div. Rate	Current Price	Income Yield
Colo. & Sou. 1st pref.	37%	26%	4%	50	8.0%
Kans. City Sou. pref.	12	7	4	53	7.5
Southern Ry. pref.	25	11	5	62	8.1

Railroad Preferred Stocks

Most of these give yields lower than those we are here discussing. It will be seen from Table II that the three selected are well protected as to dividends by the Government guaranty of earnings.

As to the prospects when the Government lets go, all three companies have every appearance of a steady and satisfactory growth. Colorado Southern's earnings have a way of falling off very sharply in times of dull business, but on the other hand the

first preferred is now earning between 5 and 6 times its dividends, so that it could stand quite a drop without dividends being endangered.

Kansas City Southern's earnings show great stability and the road, with its direct line to the Gulf, has excellent prospects. The Southern Ry networks a territory which has more room to grow than any other section in the United States. So far as I can see, its future is assured, and I consider Southern preferred about the best railroad stock for its yield that can be found in the entire list.

Industrial Preferred Stocks

Table III shows six industrial preferred stocks which give high yields and whose dividends are now being earned from 3 to 10 times over.

The tremendous strength of Bethlehem Steel's position was fully outlined in the last issue, page 266. Crucible Steel has enlarged and built up its properties and earnings since the war to a point where the preferred stock seems certain to be able to keep up its dividends even in times of comparative business dullness.

With the steady growth in the demand for fuel oil, and the vast supplies of oil upon which it can draw, Mexican Petroleum has a wonderful prospect. The fly in the ointment is the instability of the Mexican government, but even the semi-irresponsible authorities of Mexico will hardly kill the goose which lays the golden egg. The tremendous advance in shipbuilding means a demand for more and more fuel oil. I see no reason to doubt that this company can easily keep up its recently established preferred dividends.

The remaining three companies look likely to earn good profits in either peace or war. United Drug's chain stores (formerly the Riker-Hegeman chain) are being steadily extended, and it has an assured market for its numerous manufactured products among the thousands of drug stores which are part owners of the company. The business is rapidly growing and there is no indication that it has reached the end of its development.

Willys-Overland, with its big war contracts, its excellent plants, its popular types of cars, and its new low-priced model — which will perhaps be placed on the market next fall—is in a very flourishing condition. It will not earn its preferred dividend 5 times in 1918, as it did in 1917, but the margin will be a safe one.

Virginia-Carolina has paid its preferred dividend for many years. The war has brought a big demand for fertilizers, and will result in a wider use of fertilizers after peace comes. The farmers are constantly becoming educated to their profitable use, and I believe the long pull prospects of this company are excellent.

TABLE III—SELECTED HIGH YIELD INDUSTRIAL PREFERRED STOCKS.

	Earned in 1917	Div. Rate	Current Price	Income Yield
Bethlehem Steel 8% pref.	92%	8%	105½	7.6%
Crucible Steel pref.	49	7	92	7.6
Mexican Petroleum pref.	60*	8	93	8.6
United Drug 2d pref.	29	6	79	7.6
Virginia-Carolina Chem. pref.	23	8	108	7.4
Willys-Overland pref.	37	7	80	8.7

*For 1916; 1917 not out, but will exceed 1916.

ASHBURNER VS. WYCKOFF CASE APPEALED

In the case of Thomas Ashburner against Richard D. Wyckoff, the jury rendered a verdict in favor of the plaintiff, Ashburner. In the opinion of counsel the verdict was not in accordance with the evidence. Stay was granted by the trial judge and appeal has been taken to the Appellate Division of the Supreme Court.

Investment Inquiries

Standard Oil of N. J.

J. S., Boston, Mass.—Standard Oil of New Jersey, in our estimation, is one of the most attractive issues in the Standard Oil group. While we are not, generally speaking, recommending the Standard Oils for the average investor at the present time, if you can afford to hold this stock regardless of temporary fluctuations, its undoubted merit should appeal to you. Our preference would be for this issue rather than for the other Standard Oil stocks you mention. The reason we are not recommending the Standard Oils at this time to the average investor is that the management of these companies is known to be very conservative and as a matter of conservation, it seems unlikely that they will declare extras. Upon any definite peace news, however, the enormous expansion brought about through the reopening of foreign trade will probably find reflection in the market value of the shares.

St. Mary's Mineral Land

S. M. L., Brooklyn, N. Y.—St. Mary's Mineral Land is the kind of a stock to lock up and hold for big profits within the next five years or so. We have great faith in the future of this property and believe it will be developed eventually into a magnificent producer. If you can afford to tie up the money you have in this stock and disregard temporary market fluctuations, and withal assume the speculative risk, for, of course, there is a speculative risk in any mining stocks, we recommend that you hold your stock.

Liberty Loan Bonds

A. E. F., Lynn, Mass.—The First Liberty Loan bonds are convertible into any higher rate bond issued during the war (except first 5-year loan) within six months from date of the issue of such higher rate bonds. Holders may convert these into the 4¼s before November 9, 1918, or forego such opportunity and later convert into any new bonds having a maturity longer than five years.

The Second Liberty Loan is convertible into 4¼% Liberty Loan. Such converted 4¼s will not be exactly the same as the new recent 4¼s and the maturity date of the bond to be received will be the same maturity date as the bond surrendered. In other words, for your second 4s you will receive a 4¼% bond due November 15, 1942, whereas the new Liberty Loan 4¼s mature September 15, 1928. You can convert the second 4s on or before November 9, 1918. Both classes of bonds are now being purchased for converting, but you have ample time left to decide what to do.

Pennsylvania R. R.

P. B. C., New Castle, Pa.—We would not advise you to sell your Pennsylvania at this time. Government control will undoubtedly help this road very much. Although the last report of the company was not favorable, yet the unfavorable factors connected with it have been discounted pretty much by the present price of the shares. Government control has stabilized the railroads and will give a more substantial investment feature to the common stocks of the better grade ones. Under favorable market conditions, Pennsylvania shares ought to enhance more rapidly than the other three stocks and bonds mentioned in your letter.

Commonwealth Power Bonds

S. M. F., Terre Haute, Ind.—We see no reason why you should not withhold presenting your bonds of the Commonwealth Power, Railway & Light for payment at this time. It is very probable that some adjustments will be made, presumably through the War Finance Corporation. The company has suffered from operating costs and the high cost of materials, which are likely to continue as long as the war lasts. We regard these bonds as being fairly attractive investments and can see no reason why you would suffer by delaying to present them for payment at this time. It would probably only embarrass the company if you did so.

Allis Chalmers Pref.

B. R. M., St. Paul, Minn.— Benefits by war orders, but the increase in the costs of materials and labor, as well as heavy excess profit taxes, will narrow the margin of earnings despite the extensive growth of business. This is somewhat reflected in the market action of the shares. It was augmented by the uncertain international situation and other war influences which contributed to the decline in the shares of this company. This company is still paying off accumulated back dividends on its preferred stock, the last extra being ¾ of 1% declared paid on April 15, 1918, in addition to the regular $1.75 quarterly or $7 per share per annum. In view of the handicap which the stock will suffer when peace is declared we do not think the outlook warrants this issue showing any substantial advance in the near future and we are not advising its purchase at this time.

Anglo-American Oil

W. K. S., Nashville, Tenn.—Please see special article concerning the general oil situation contained in the January 19th issue of the Magazine. This company is undoubtedly well managed and we believe that upon the return of peace the resumption of its foreign relations will place it in a very strong position. And we believe that the market action of practically all the oils will be adverse, and would not advise the purchase of this stock at present, as we believe you will be able to buy at current levels, or lower. We would advise you to wait and then buy on any substantial reaction during specially weak markets to avoid avoid carrying it through a period of depression.

Cerro de Pasco

R. L. B., Toledo, Ohio.—Cerro de Pasco has a very good future, but it is quite likely that the stock will sag in the market to lower levels, before it is financially established at a materially higher price and reaches a more permanent investment plane. The company earned $5,078,868 in 1917, after deducting war taxes of $1,648,125, which is equal to $6.28 a share on the outstanding capitalization of 918,000 shares. The last of its bonds were recently retired. The dividend of this company is in no immediate danger, but war conditions give rise to unusual happenings. Reduction of dividends of some of the other copper companies has already taken place and a consequent reduction in the market price of the shares. We do not regard the dividend on Cerro de Pasco as being absolutely safe, although an extra dividend of 25c. has been recently declared. The company is in a very strong position financially and has large assets and ore reserves. It has had some transportation difficulties because the British Government assumed direct control of all English ships to ply to the West South American ports. They have been diverted largely to the transportation of phosphates which are as essential as copper in the successful prosecution of the war. We have not received any confirmatory information that these difficulties have been wholly adjusted. If you are a holder of this stock we advise you to sit tight, but if not we are not advising its purchase at this time.

Investment of $3,000

C. K. M., Concord, N. H.—As to the investment of $3,000, we would advise you to place the same in bonds mentioned in the last few issues of our Magazine. We would also advise you to distribute your purchases among several of them, so that your investment would not be dependent upon the prosperity of any one or two companies. American T. & T. collateral 4s, 1929, Bethlehem Steel first lien refunding 5s due 1942, Central Leather first mortgage 5s, due 1925, U. S. Rubber first refunding 5s, due 1947, Montana Power Company first refunding mortgage 5s, due 1943, Pere Marquette first 5s, due 1956, and Colorado and Southern refunding mortgage 4½s, due 1934, are attractive purchases. You might consider the advisability of purchasing some good preferred stocks to yield an average from 7½% to 8%. Funds distributed through the following issues would give this result, with comparative safety—Beth. Steel 8%, Mexican Petroleum, Maxwell 1st, Colo. & Southern 1st, Baltimore & Ohio, Wabash "A," Am. Linseed, Am. Woolen, Studebaker, General Motors or Atchison.

Denver & Rio Grande Pfd.

S. R. F., Denver, Colo.—During January and February, 1918, the net operating income of this company decreased $178,306. The Supreme Court of the United States refused to review the proceedings in the case in which a judgment for $38,000,000 was rendered in favor of the Western Pacific against this company. This establishes definitely this very large claim against the Denver & Rio Grande, which it is impossible for the company to pay in cash or even in securities without arranging a substantial compromise with the bondholders of the Western Pacific. As the matter now stands, the stockholder's equity in the property appears to be of no substantial value. This judgment is ahead of the stock. If it were collected through foreclosure, there would likely be little, if anything, left for the stock. While it is to be expected that the price of this stock may advance from time to time, as result of favorable market conditions, our judgment is that from the investment point of view, you assume a speculative risk in continuing to hold it.

Duquesne Light

H. C. L., New Haven, Conn.—Duquesne Light preferred stock is an investment issue. It is a sound public utility. The troubles of the Philadelphia Company mentioned in the April 27 issue of the Magazine were not caused through the decline in earnings in this company, but rather through the unfortunate traction situation. The net income for the year ended March 31, 1917, of the Duquesne Company was $2,168,327.56, which gives a very large margin of safety for the payment of dividends on the preferred stock. We can see no reason why the dividends on this stock should be passed. We advise you to hold this stock as an attractive investment.

American Brake Shoe & Foundry Pfd.

D. A. W., Baltimore, Md.—Declared an extra dividend of 1% on this stock, payable March 30 to stockholders of record on March 22. Its surplus for the year ended September 30, 1917, was $2,012,452 after paying its dividends on the preferred and common stock. This made a total surplus of $7,664,165 from which was deducted a contingency reserve of $400,000, leaving a profit and loss surplus of $7,244,165. Its earnings on its preferred stock from the years 1909 to 1917 averaged over 20%. This preferred stock has preference for assets and for cumulative dividends at the rate of 7% per annum. After 7% has been paid on the common stock in any year, the preferred stock is entitled to all further distribution of earnings. The company's normal earnings are high and it is not dependent upon war orders or war prosperity. In view of the long pull possibilities of the stock, we advise you to hold it. This is, provided, that you can assume the speculative risk of a further decline. Over a period of years, this company should continue to grow and strengthen its position. Although it is not improbable that the common stock may sell below its current level, we regard this stock as an excellent investment to hold for income.

RAILWAYS AND INDUSTRIALS

Three Staunch Equipments

American Brake Shoe — Railway Steel Spring and Pressed Steel Car—Their Earnings, Status and Prospects

By J. G. DONLEY, JR.

As dependents of the revenue-starved railroads, the equipment companies were generally in a rather threadbare condition when the war broke out. The railroads were buying cars and locomotives, to be sure, but their custom was not what it had been. They were purchasing in a hand-to-mouth way, with a strict eye to costs, and were aided in their parsimony by the growth of keen competition among car and locomotive builders.

So that when the European conflagration began to crackle, the railway equipment companies were the first of the big industrial concerns to get out after war business. They made good, and prosperity returned to them.

Right now there is a call for all their capacity. They are being asked to bend every effort to give the long-neglected railroads car and motive power enough to handle the heavy war traffic. Production of steel ingots increased from 30,000,000 tons to 50,000,000 tons in 1917, but there was no real increase in cars.

Deferred equipment requirements which have been piling up for several years must be filled in short order, and the equipment makers are in excellent shape for the task.

Among investors and speculators the stocks of the car, locomotive, and allied concerns are coming to be known as "peace or war" stocks, because it is believed that the point has been reached where both domestic and foreign roads must purchase sufficient rolling stock to keep the manufacturers busy for two or three years to come at least.

Last year was a busy one for the equipment concerns. About the largest business in the history of the industry was done, but costs advanced with such unprecedented rapidity that some of the less prudent companies slipped up in their cost estimates and suffered losses here and there which diminished profits.

This situation, however, changed radically in favor of the manufacturers with the fixing of prices for iron and steel in the last quarter of 1917. Moreover, there have been intimations that the Railroad Administration would do everything in its power to keep down the prices of all raw materials entering into the manufacture of these necessary supplies.

It may be taken for granted, therefore, that when the Director-General agreed to allow a profit of 5 per cent over the estimated manufacturing costs of the car builders, such a profit was practically guaranteed.

With the demand for equipment practically unlimited, and profits fixed on the cost-plus basis, the chief problem at the moment seems to be that of production.

Brake Shoe's Position

The American Brake Shoe & Foundry Co., which manufactures principally brake shoes and car wheels, is just getting into its production stride. Its average operations for the year 1917 were at the rate of about 76 per cent of capacity, as compared with 74 per cent during the previous year. Operations for the last month of the company's fiscal year—September, 1917—were, however, at the rate of better than 81 per cent of capacity. The plants of this company have all been maintained in excellent physical condition, improvements to the amount of $115,839 having been made during 1917.

American Brake Shoe's foundry business was the greatest in the history of the company during 1917, but the profits from this source were not as large as those of the preceding year, because costs rose more rapidly than prices could be advanced. Because of this large volume of business the company purchased two small foundries during the year.

Graph 1 shows that this company's oper-

ating profits in 1917 were nearly double those of 1916. In fact, the balance after largely increased dividends exceeded the operating profits of any one of the previous five years. The earnings expansion is more striking when the 1917 balance is compared with the balances of previous years; it amounted to more than six and one-half times what was left after dividends in 1914.

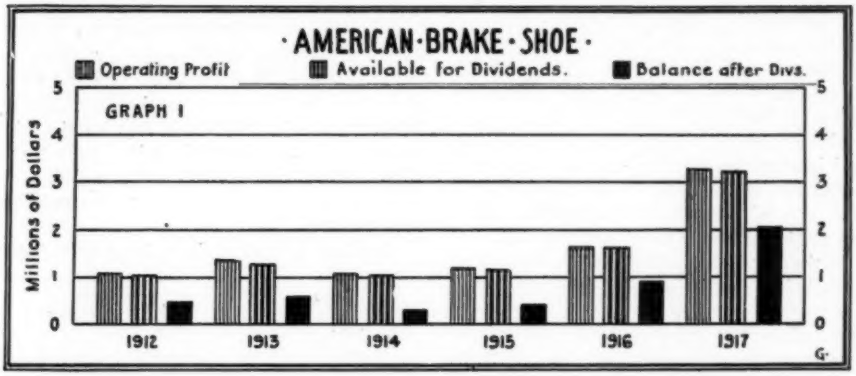
The growth of American Brake Shoe & Foundry's earning power has been remarkably steady for an equipment concern. Comparison of the graph depicting its operating results with the Railway Steel-Spring and Pressed Steel Car graphs brings out this point very clearly. While Railway Steel-Spring reported deficits in 1913 and 1914, and Pressed Steel Car had a balance of only $17,352 in 1914, American Brake Shoe covered dividend requirements nearly twice over in 1913 and earned a substantial balance in 1914. Thereafter its earnings resumed their rising trend.

American Brake Shoe is a comparatively small concern with a big earning power. There is $5,000,000 7 per cent cumulative preferred stock, to which accrues all remaining earnings after 7 per cent has been regularly paid on it, and 7 per cent on the $4,600,000 common stock. As a result of this provision, Brake Shoe preferred has been the issue to respond the most to war stock speculation. It got up from a low of 129½ in 1914, to a high record of 219¾ in 1915. During the same period the common advanced from 80 to 109¾.

Earnings on Brake Shoe preferred have been as follows during the past six years:

	Per Cent.		Per Cent.
1912	19.06	1915	16.47
1913	19.50	1916	26.11
1914	14.03	1917	58.21

Since 1914 the asset item of "real estate, buildings, machinery, etc., and investments" has been written up from $11,650,502 to $13,563,246, while the funded debt has been reduced from $710,000 to $469,000. At the end of 1917 the company had a total surplus of $7,244,165, as compared with $4,302,918 at the close of 1914. Net working capital was up from $4,050,329 to $4,577,956.



Over the period of nine years since incorporation, American Brake Shoe has demonstrated an annual average earning power of 24.40 per cent on the average preferred stock outstanding, after allowing 7 per cent per annum dividends on the common stock.

American Brake Shoe has made a creditable record in the handling of its war orders. It completed last year two British shell orders, totalling 700,000 9.2-inch shells, well within the limits set for delivery. These orders were received in the summer of 1916 and amounted to approximately $22,400,000. This year production was begun on a $60,000,000 order for 3,000 pieces of 6-inch artillery for the United States Government, while late in 1917 the company received an order for 750,000 155-millimeter howitzer shells.

Brake Shoe preferred is at present paying dividends of 8 per cent per annum, while the common pays 7. Both of these payments

appear to be entirely safe for as far ahead as one cares to look. The preferred stock seems to be a particularly desirable purchase, with a view to sharing in future extra payments in cash or a possible capital readjustment.

Steel Spring's Record Erratic

The Railway Steel-Spring Co. began the current year by paying off $2,994,000 first mortgage 5 per cent bonds, bringing its total funded debt down to only $2,967,000. The approximately $3,000,000 bonds redeemed on Jan. 1, 1918, were issued in 1906 to purchase the Latrobe plant, and were not due until 1921. They were taken up at the call price of 105. The bonds now outstanding were issued in 1911 to purchase the Inter-Ocean Steel Co. plant, the total original issue having been $3,500,000.

This latest retirement wipes out an annual interest charge of about $150,000, and a sinking fund of $135,000 annually—a total annual saving of more than 2 per cent on the $13,500,000 common stock.

In the last four years fully $3,661,000 of funded debt has been lifted from the property out of earnings. During the same period the profit and loss surplus has grown from an amount equal to $29.29 a share on the common stock, to the equivalent of $64.13 a share. This surplus represents the excess of fixed assets over fixed liabilities. In 1914 net working capital—which is the excess of liquid assets over current liabilities—stood at $4,025,786. By the end of 1917 this balance had grown to fully $5,896,000.

In Graph 2 is shown the growth of Railway Steel-Spring's earning power. It will be seen from this exhibit that gross income in 1917 was more than five times that of 1914, while operating expenses had little more than quadrupled. It appears from this comparison that operating efficiency has greatly increased, and this conclusion is borne out by a study of the ratio of operating expenses to gross.

The following table gives the percentage of gross revenue which went to pay expenses of operation for each of the past six years:

	Per Cent.		Per Cent.
1912	72.99	1915	70.63
1913	74.83	1916	63.45
1914	79.03	1917	57.79

But this comparison does not furnish an exact reflection of actual operating conditions for two reasons. First, because income from investments (carried at $3,553,254 in the 1917 balance sheet, as compared with $703,690 in 1912) is lumped under the item of "gross earnings from all sources" in the annual statements, with no offset in operating costs. Second, because maintenance charges are included in operating expenses. Where there has been such a notable improvement in the operating ratio, however, it is fair to assume that some portion of it represents a real gain in manufacturing efficiency, and the above figures should be given due weight.

Railway Steel-Spring's earnings record has been rather an erratic one. For the year 1917 there was a balance of $3,687,860 after dividends of 7 per cent on the $13,500,000 preferred stock, and 5 per cent on the like amount of common stock, while only three years before there was reported a deficit of fully $570,546, after 7 per cent was paid on the preferred.

Earnings per share have been as follows (per cent):

	Pfd.	Common
1914	2.77	.....
1915	10.09	3.09
1916	27.48	20.49
1917	39.32	32.32

It has been the policy of the company to increase the capacity of the different plants, and this purpose seems to have been accomplished without undue addition to overhead charges. Large expenditures have been made to maintain all the plants as far as possible in the best operating condition, and it is probable that heavy appropriations for this purpose will be continued during the current year. It must therefore be conceded that Railway Steel-Spring is a different proposition now than it was a few years ago, because plant capacity has been permanently expanded and the company has demonstrated its ability to secure very low costs when operating at high pressure.

Dividends have been paid at the rate of 7 per cent per annum on the preferred stock since 1903, and this issue is a business man's investment. A full 5 per cent was paid on the common stock for the first time in 1917, but the accumulated earnings of the past two years, along with the increased

efficiency and productive capacity of the plants appear to have bulwarked this issue into a strong position as a 5 per cent dividend payer. Moreover, the common stock—for lack of pool exploitation—has never measured up to its latent speculative possibilities in the stock market. As a speculative investment it is attractive now—around 53.

Pressed Steel Car's Operating Results the Key

The Pressed Steel Car Co. met with less success than the general run of equipment companies in its handling of the labor problem last year. Of all the handicaps that beset car manufacturers—transportation difficulties, the fuel and labor shortage—this concern found the labor question the most vexing.

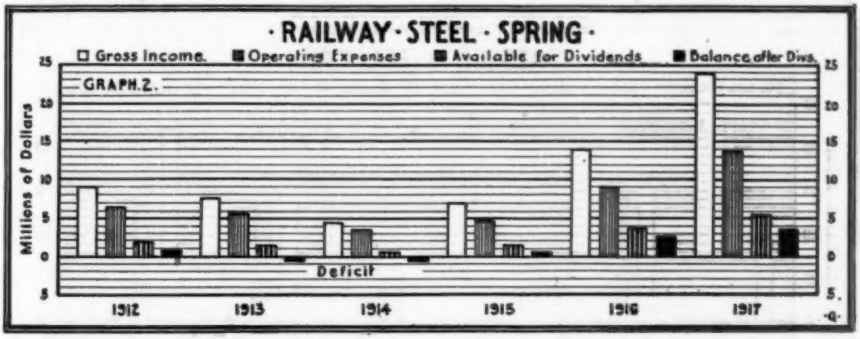
In his annual statement to stockholders, President Hoffstot said:

The following table gives the ratio of expenses to gross for the past ten years:

	Per Cent.		Per Cent.
1908	97.0	1913	92.4
1909	85.7	1914	93.3
1910	93.4	1915	92.4
1911	92.1	1916	90.2
1912	94.9	1917	94.5

But, as was the case with Railway Steel-Spring, these cost percentages are not to be taken precisely at their face value. The figures used for operating expenses include repairs and renewals of buildings and machinery.

The net result is not inspiring, from whatever angle it is viewed, although there are mitigating circumstances. In the last six years there has been put back into property and charged against operating expenses fully $2,050,000, or the equivalent of more than $16 a share on the common stock.



"Labor conditions have been most difficult, and we can no better illustrate this than by the statement that during the year we employed four men for every job; that is, each employee averaged only four months' service with us."

Costs mounted so rapidly that only about $10 a share was earned on the $12,500,000 common stock, as against a trifle more than $15 in 1916. While gross sales amounted to fully $44,034,844, as against $31,202,646 in the previous year, the net income after an equal charge for depreciation was only $2,130,308, as compared with $2,751,152 in 1916. Moreover, the report makes no mention of a reserve for Federal Income and Excess Profits Taxes.

Moreover, the surplus and undivided profits of $10,597,377 reported at the close of 1917 amounted to $84.75 a share on the common stock, as compared with $8,422,352, or the equivalent of $67.37 a share on the common stock back in 1914.

On Dec. 31, 1917, the company had net working capital of $5,197,889, as compared with $3,733,469 on Dec. 31, 1914. Working capital at the close of 1917 was equal to 11.8 per cent of gross sales, as against 27.9 per cent in 1914. The "book value" of the common stock, after deducting the par value of the full amount outstanding as an allowance for good-will, etc., was $85 per share in 1917, as compared with $82 per share in the previous year. There is no funded debt, with the exception of $1,-

259,000 bonds of a subsidiary.

Pressed Steel Car's past earnings record has not been good, particularly insofar as the common stock was concerned. The results of the last six years are shown below:

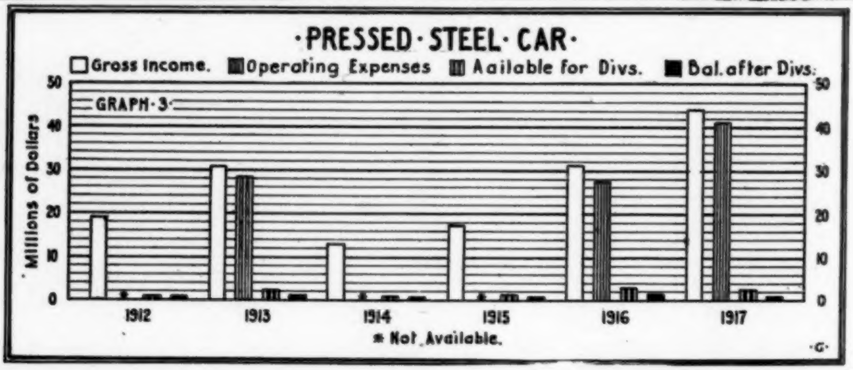
	Pfd. (Per Cent.)	Common (Per Cent.)
1912	7.76	0.76
1913	17.56	10.56
1914	7.14	0.14
1915	10.60	3.60
1916	22.00	15.00
1917	17.04	10.04

While average annual earnings for the last ten years show the 7 per cent dividend requirements on the $12,500,000 preferred stock covered with a margin of 4.77 per cent, less than 5 per cent was averaged annually on the like amount of common stock. Dividends have been maintained at the rate of 7 per cent on the preferred since organization of the company in 1899. Its asset position is strong, and this issue may be rated as a good business man's investment, although Railway Steel-Spring preferred would appear to be preferable.

Pressed Steel Car is a high-cost manufacturing proposition, and the future of the common stock—for the longer outlook—seems to hinge on the question of whether money put back into plant is going to redeem itself. As compared with Railway Steel-Spring, its operating ratio is almost unbelievably high—94.5 in 1917, as against 57.79 for Steel-Spring—and it would seem that the upbuilding of facilities would find reflection in lowered costs before long, if such a turn is to come. At any rate, worse results are not to be expected for 1918, with the raw material and transportation troubles on the mend.

The company is reported to have received contracts from the Railway Commission for the construction of 14,000 freight cars, on the basis of cost plus 5 per cent. This is about the proportion of profit it has been showing, and the size of the order compares with contracts taken last year for approximately 10,000 cars at varying prices.

Purchases of the common stock should prove profitable at present prices—58 bid, 60 asked—as it responds readily to improvement in the equipment group. For the next two years its 7 per cent dividend would appear to be fairly safe, but any one committed to the long side of this stock should watch its operating results closely. If there does not appear any improvement this year, the conclusion would naturally be that money put back into plant has been unwisely expended. As was pointed out at the beginning, builders who fail to keep costs down to estimates stand to lose something of the theoretical 5 per cent profit margin. The Government has proved to be a shrewd buyer.



In the case of each of the three equipments discussed there has been an improvement of production facilities, and a substantial increment to undivided profits in the past two years of prosperity. There is sufficient business ahead to keep them going at full tilt for at least two more years. Increased taxation will not reach back into their piled-up surpluses, and future prosperity, well earned, should have nothing to fear from the tax collector.

BUSINESS AND FINANCE SERIES

No. XII. PART 1

Renaissance of American Shipping

Early Shipbuilding in America—Supremacy and Decline of the United States—War Boom in Shipbuilding—Our Future Place in the Marine World

By THEO. A. FREY

Treasurer International Trading Corporation; Associate Member of the Society of Naval Architects and Marine Engineers

SHIPBUILDING, that great industry in which we once were the leaders and a supremacy in which we are now reviving, will eventually make America the greatest maritime nation in the world. It will permit the vast trade expansion which the natural resources of this country warrant, and will also strengthen our foreign policy, both diplomatic and commercial.

Shipbuilding is America's oldest important industry. Seventy years ago the United States stood second among the nations in the tonnage of vessels owned; sixty years ago the largest ship afloat was American built and owned; fifty years ago the United States built almost twice as many ships in a year as it did in 1913.

The Story of the Industry

Our shipbuilding history contains many interesting chapters. We built the "Virginia" in 1607, on the coast of Maine, and although only of 30 tons, it plied regularly across the Atlantic. In 1614, six years before the Pilgrim fathers landed on Plymouth Rock, a ship was built on Manhattan Island by Adrian Block known as the "Onrust." In it he sailed up to the other end of the sound and discovered an island which still bears his name.

"The Blessing of the Bay" was built by Governor Winthrop on the Mystic River in Connecticut in 1631. It had only one mast but was sufficiently seaworthy to last a long time in the Virginia trade. It was in this year that John Winter established the first shipyard in the United States, at the present site of Eastport, Maine. Here was built the "Plymouth" for English capital.

In 1651 the second shipbuilding yard in America was founded at Newburyport, Mass. In 1686, the year of the incorporation of New York City, the city boasted of having a shipping interest of ten vessels of over fifty tons each, and two hundred barques of about forty-eight tons each.

In 1789, Calcutta welcomed its first American ship from Salem, Mass., and the reports of Alexander Hamilton, who was then Secretary of the Treasury, exhibited a total tonnage of 363,093 vessels employed in our foreign trade, and 113,181 tons of coastwise vessels of above 20 tons. In 1800, 995 vessels were built in the United States with a tonnage of 106,000.

On August 7, 1807, "Katherine of Clermont," the handiwork of our great Fulton,

steamed up the Hudson River to Albany in thirty-two hours, an event of no small importance. Nicholas J. Roosevelt, a great grand uncle of Theodore Roosevelt, traveled to New Orleans in a steamboat which he built in 1811, at Pittsburgh.

The Great Lakes trade was opened in 1818, when the steamboat "Walk on the Water" first dipped its nose in our fresh water seas. The first crossing of the Atlantic Ocean by a steamboat took place in 1819, when the "Savannah," owned by William Scarborough, arrived in Liverpool. Seventeen years from this date elapsed before the first British steamboat arrived in New York harbor.

In 1838, 700 steam vessels were built in the United States, and in 1845 this country had 19,666 vessels of 2,416,000 gross tonnage, which was 80 per cent of the British tonnage then afloat.

In 1855, twenty-seven steamers, owned by five American steamship lines, were plying between American and European ports, with a total tonnage of 45,763. This year was the highest point in American shipbuilding, 2,027 ships of 583,450 tons. And 1856 was the highest point in ownership, 5,681,394 tons.

Following the Civil War shipbuilding in America fell off rapidly, declining in 1887 to 95,453 tons. Comparative statistics in Great Britain will show at this point a gradual rise in construction of tonnage. In 1856; 90 per cent of our foreign trade, which we were then eagerly endeavoring to extend, was carried in American ships; while the per cent of our foreign trade carried in American ships in 1913 was 11.5.

Our Shipping Record

The wars of the Revolution and 1812 developed the great characteristic of the American sailing ship, speed. Speed was the essence of life to a vessel which had to run away from pirates, revenue cutters and hostile crews.

At the end of the Revolutionary War, American merchantmen had been almost swept from the ocean and in the Napoleonic wars following, we, as a neutral nation, were treated much the same as we were just before our entering the present war. Still, even in that period of difficulty American ships opened the China trade, and in 1789 were the leaders in this great movement.

In 1812, British cruisers and Privateers captured 1328 American merchant ships, and yet with the ending of this war Columbia once more became the "Gem of the Ocean" when it introduced the famous American "Packet."

Between 1816 and 1836 the famous "Black Ball Line" was established, with monthly sailings between New York and Liverpool. The Red Star Line entered the Liverpool service; then came the Swallowtail Line, with weekly service; then the Dramatic Line. At this time the average run across the Atlantic was eighteen days. This record was broken in 1836 when the "Independence" made the run from New York to Liverpool in fourteen days and eight hours.

Next came the discovery of gold in California in 1849, and American ships rounded the "Horn" in great numbers, the "Donald Mackay" of Boston making the trip to 'Frisco in 89 days.

Until the late "fifties" wind and wood maintained American supremacy, but in the transition from wood to iron and from wind to steam, which had been inaugurated by an American and developed by Britishers, American shipbuilding began to fall be-

TABLE I—ANNUAL CAPACITY PER ANNUM OF SHIPYARDS PRIOR TO 1916

	Registered Tonnage
United Kingdom, Colonies and Canada	1,984,000
United States, including the Great Lakes	540,000
Germany and Austria-Hungary	527,000
All other countries	634,000
Total capacity per annum of the shipyards of the world	3,685,000

hind. The genius of Great Britain for the manipulation of iron and for the development of intricate machinery surpassed ours. American builders were slow in turning to iron. Even as late as 1904 fifty-eight per cent of American ships were wood, while in 1860, thirty per cent of British ships were iron, with few launchings of wooden ships by the British after that date.

The timidity and the lack of enterprise of capital in this country prevented us from taking advantage of the successful crossing of the Atlantic by British steamships. This excited our emulation, as shown by the development of the Atlantic Steam Navigation Company, fathered by New Yorkers, in 1838, and the Ocean Steam Navigation Company, in 1845, which received a mail contract, but the reluctance of capital to enter upon these voyages of doubt interfered with the development of an industry in which at one time we were the leaders.

all the results accruing to us is the advantage we took of the situation as we found it at the opening of the war for the rebuilding of our merchant marine. The greatest lesson which the war has given us is our need for a merchant marine with an ample navy for its protection and support.

Sea power is the combination of a healthy commerce and mercantile marine, supported by a military navy insuring at all times by force of arms a protection sufficient to enable unarmed vessels to carry out their proper function. Just as in olden times merchant vessels were the backbone of the fighting fleet, it can be said that a military navy springs naturally from a healthy commerce.

Prior to the present war the number of cubic feet of shipping per capita in the United States was .85. When we consider that in 1810, when the population was one-fifteenth as great, the number of cubic feet per capita was 13 55, we realize the low estate to which our shipping had fallen.

TABLE II—CONSTRUCTION COSTS 1600-1918

Year	Type	Cost per Ton	Year	Type	Cost per Ton
1600-1650	Light Wood (Sailing).......	$30	1850-1900	Wood (Sailing)	$62
1650-1700	" " "	36		Steel (Steam)	75
1700-1750	Wooden Schooner (Sailing).	45	1900-1910	Wood (Sailing)	75
1750-1800	Wood (Steam)	52		Steel (Steam)	80
1800-1850	Wood (Sailing).............	55	1914	Wood (Sailing)	200
	Steel (Steam)	80		Steel (Steam) ....$200 to	275
			1918	Wood (Sailing)	175
				Wood (Steam)	200
				Steel (Steam)........$200 to	250

The great revival of business following the Civil War was not shared by the shipping industry, due perhaps largely to the attraction of capital, which was relatively scarce in America at that time, to the building of railroads. The war tariff was not materially lowered when the Civil War was over. The downward revision which finally came with the recent Underwood Act might almost be called the "last nail in the coffin" of the American merchant marine. It raised the cost of shipbuilding materials and shipyard labor and tied a millstone around the neck of foreign trade.

With the coming of 1914, when the red glare of war lighted up the horizon of Europe, the American merchant marine almost vanished; but there sprung from the condition developed by this war a reversal of tendency, and greatest, perhaps, among

Rapid Development Since the War

Prior to the outbreak of the war, dotted along our Atlantic, Gulf and Pacific coasts were numerous shipbuilding and repair yards, many of them dilapidated and non-operating, or operating at a loss. But shortly after the outbreak of hostilities in Europe there came an awakening to the serious need in this country for ships. Developments in Washington came thick and fast. The difficulties of organization and the many handicaps experienced in the development of this sleeping industry have taxed American constructive ability.

Available statistics at the present time are meagre as to the recent rapid growth of our shipbuilding, but some idea of re-

sults can be formed when it is stated that as much tonnage has been constructed in American waters in the last three months as by all the other maritime nations of the world combined. This big output has necessitated the addition of 81 steel and wood shipbuilding yards to the 37 steel yards under operation at the time of our entrance into the war. Eighteen smaller yards have also been expanded to meet the increased demands for production, and there are building in these various yards a total of 235 new steel shipways, or 20 more than exist in all the shipyards of England.

Figures of construction compiled as of March 1, are 8,205,708 dead weight tons. This includes the tonnage under contract with the Emergency Fleet Corporation and that of the requisitioned vessels. Edward M. Hurley, chairman of the United States Shipping Board, in a speech before the members of the National Merchant Marine League of the United States, on March 26, 1918, summarized the situation as follows:

"If you will take a glance at the map of the world you will see that three-fourths of it is covered with water. Great Britain long ago made it her policy to maintain control of this greater part of the world's

TABLE III—PERCENTAGES OF WORLD TONNAGE CARRIED IN AMERICAN BOTTOMS.

Year	Carrier	Percentage
1610-1635	American	about 80%
1635-1712	American	" 82
1712-1800	American	" 85
1800-1836	American	" 79
1836-1855	American	" 81
1856	American	" 90
1856-1863	American	" 70
1863-1890	American	" 48
1890-1910	American	" 30
1910-1913	American	" 26
1917	American	" 68

surface, but we also have taken first rank among the powers and our first need now is for a great merchant marine. Our gigantic program for ship construction will place us in a position where we can rely on native resources rather than be dependent on the fleets of our competitors, as we have been very largely in the past. No nation can be great commercially unless it has its own manufacturing and its own shipping, and this is the goal which will be passed in peace if we can reach it in war.

"There is no doubt but that we are destined to be one of the leading shipbuilding nations in the world."

From the November 15, 1917, address by the President of the society of Naval Architects and Marine Engineers, Lieut. Com'dr. Stevenson Taylor, U. S. M. R. F., at their annual meeting in New York the following figures were given relative to tonnage production by the shipyards of the world. "The total capacity per annum, prior to 1916, of shipyards for building merchant vessels was: (See Table I.)

"Notwithstanding the decrease in merchant shipbuilding in the United Kingdom of Germany, caused by the necessities of war, owing to the increase in capacity of United States shipyards (about 100,000 tons) and elsewhere in the world (about 76,000 tons) the total production of merchant vessels in the shipyards of the world during 1917 was approximately 3,250,000 tons."

The same great change in the industry during 1917, when at the close of the year there were about 142 shipyards, 59 of which were building wood vessels, will be likewise responsible for the enormous increase in 1918, over that of '17 when it is considered that while there has not been so many yards added to those existing in '17, still there has been several gigantic enlargements and comprehensive plants built to cope with the tremendous program of the United States Shipping Board, which will add 787 new ships to our Navy at a cost of $1,150,400,000, thus making the Navy of the United States the most powerful in the world, second to none.

As to the estimated production of 1918, the announced program of the United States Shipping Board, which promised at the end of 1919 a merchant marine of 14,500,000 deadweight tons capacity will be met at the present rate of production and construction long before the close of 1919.

Prospects After the War

There has been raised, of course, the question of the after-war effects on the investment values of both shipbuilding yards and ships. This became a serious question just after the outbreak of hostilities in Europe, when the first enormous demands

were made upon the available world shipping and the prices for tonnage both old and new soared to heights it was believed impossible that they could ever attain.

But this was not all; there was the almost apathetic condition of our neglected foreign trade and the fear that competition would make it impossible for us to enter the foreign markets even after the war. Again, there was the present reply of our manufacturers, "Why should we?" to the oft repeated inquiry as to why they did not cater to foreign trade. "Our present capacity is only sufficient to meet the demands of local consumption and we are hardly able to keep up with the increase of that. We have never even gone after the trade waiting for us on our Pacific coast, owing to the fact that it would necessitate an increase of 100 per cent production."

There was also the bugaboo of our lack of cheap production to meet the competition of cheap foreign labor, our lack of foreign trade systems, linguistic shortsightedness, and refusal to conform to proper methods of foreign selling, the burden of high cost of labor upon the shipping industry to man our vessels in competition with the cheap labor manning vessels under foreign registry. To this can be added adverse legislation improperly restricting our maritime operations.

But the industry is again coming into its own. Students of shipping and foreign trade are of one opinion, that American energy will find a way by its own method to produce at a marketable price and in an acceptable manner merchandise which will ably compete for foreign trade. Ships will be built and manned by crews at a cost which will afford protection to the operation of our merchant marine. The speeding up of industries of all kinds, due to the exerted war energies of the country, has answered the question of liberal expansion of industry sufficient to meet the necessities of overseas trade competition.

It is very necessary, however, that we consider carefully the conditions and methods of offering our goods so that we may build and hold the trade which we are now in a position to control. We must be prepared to meet an aggressive European trade built up by combinations thoroughly organized to fight hard for every inch of ground they may lose.

The shipping board is now approving plans for the building and operation of large fleets of private ship lines and in the execution of this policy they are turning back to American owners for operation vessels that were commandeered in the early days of the war.

The U-boat situation is one about which it is impossible to write freely. However, we may say that at the rate we are constructing ships and in view of the various methods we are using to give them protection in their overseas travel, we have nothing to fear from submarines.

A CALL FROM THE NAVY

May 27, 1918.

My Dear Editor:

We are urgently in need of 1,000 Gas Engine Men and I would ask you, please, if it is posible to carry the following box as a news item:

NAVY NEEDS AT ONCE 1,000 GAS ENGINE MEN

The Naval Reserve Force must enroll at once 1,000 men experienced in the operation and maintenance of gasoline engines.

This is an urgent call. The men are required for immediate duty. They will be rated as Machinist's Mates.

Age limits are 18 to 35, inclusive. Applicants must be American citizens. Draft registrants with letters from their local boards will be accepted.

Apply at Naval Reserve Enrolling Office, 51 Chambers Street, New York, or any Navy Recruiting Station.

This is most urgent and please give it as much prominence as you can possibly afford.

I thank you for the many past favors and certainly apperciate this one.

TRUMAN H. NEWBERRY.

By direction, Assistant to Commandant.

Right and Wrong Methods in Investment and Speculation

XIV—Selling Short Without a Stop Order

By RICHARD D. WYCKOFF

A FEW weeks ago, when American Sumatra advanced to 145, we received a number of inquiries from subscribers who on their own initiative had sold the stock short around 90. The burden of these inquiries was "What shall I do now?"

If there is one kind of communication that puzzles our Inquiry Department more than any other, it is a cry for help from the fellow who is a mile off shore, with no life-saver in sight. If we reply "Cover now and take your loss" and the stock should break to around his selling point, he would have a very small opinion of our judgment.

On the other hand, if it rises 20 points further, he is apt to say, "Why did you not tell me to cover at 125?"

The situation in American Sumatra, we are told, is as follows:

When the stock was selling in the nineties, 50,000 shares out of a total of 60,000 shares were still in original hands. A prominent tobacco magnate was reported to be short of a considerable quantity. It was said that this gentleman was notified that he could cover at 125, and that when the stock touched that figure, which it might, if he had not covered by that time, the next price would be 175. Yesterday the stock touched 145, rising to that figure with comparative ease, and reacting with the general decline in the market.

We do not know whether the above is the true state of affairs. It is simply mentioned for what it may be worth. Let us assume, however, that it is true, and that the large operator referred to has not yet covered. With such a small amount of stock in the hands of the public (if this should be still the case) there is no telling how far the stock might advance, nor how soon and how rapidly it will break. Movements of this kind are usually carried through until the objective has either been reached, or those engineering the move are obliged to buy more than they wish for, and have to alter their plans.

A rise of 55 points in a stock selling at 90, and all within a period of a few weeks, points to a very unusual situation, but what we desire to discuss here is the risk undertaken by those who sold the stock short at 90, because it looked high.

From a stock market standpoint, there are various forms of suicide, some more pleasant than others.

In the Panic of 1901

A few days before the panic of May 9, 1901, a friend of mine met a leading banker from the West, and said, "What do you think of the market?" The banker replied "Northern Pacific around 106 looks to me like the best purchase—there is something doing in it." That day Northern Pacific advanced several points. The next day, if I remember correctly, it rose to above 120.

I was managing partner in a New York Stock Exchange house at the time, and the handling of the clientele was one of my responsibilities. The whole market was advancing with Northern Pacific and upward rushes of from 5 to 10 points a day were common. I did not like the looks of the market, and began getting my people out of stocks. Some of them said "If you think we should sell our long stocks, why not sell them short?" "Not in a market like this," was my reply. "It is switching around at such a terrific rate, that something big is going to happen. The only safe position is to be out of it." I do not now claim that this was the best thing to do, because the history of that day shows that any one who sold any other stock short except Northern Pacific could have made a handsome profit, but I had learned that in wild markets the safest position is that of a *spectator*—not a speculator.

Northern Pacific climbed to 150, and there were whispers of a corner. The rest of the market started to sag downward, while Northern Pacific began jumping 50 and 100 points at a time.

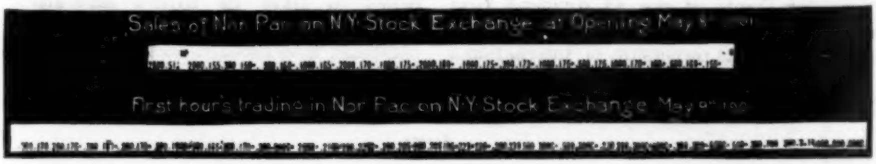
Herewith is a reproduction of the tape showing the character of the market on that

fateful day when Northern Pacific touched $1,000 a share. I recommend that those who are tempted to sell a stock like American Sumatra short without limiting their risk should carefully preserve this picture of the "pinnacle" of the 1901 panic as a warning against such a procedure.

It is not claimed that short selling is any more dangerous than taking a long position in a stock, but there is this difference: If you pay $100 a share for a stock, you cannot lose more than that amount, but if you sell it short at that figure, without limiting your risk by means of a stop order preferably, there is no limit to your liability because no one knows how high a stock may sell under conditions such as in American Sumatra and Northern Pacific. also "looked high" many a time on the way up, and the new short interest was constantly being created, then forced to cover at a higher level.

The peculiar part of it is that those who sold Sumatra at 90, would undoubtedly have taken two or three points profit, and considered that they had done well. The subsequent rise has proved that they risked $5,500 in the hope of making $200 to $300.

No speculative transaction should be undertaken without a prospective profit of two or three times the amount you are liable to lose. That is, a person who enters a trade with a stop order two or three points away, should be confident that there is 5 to 10 points probable profit in the transaction, or he should not undertake it at all.



In the latter case the short interest amounted to more than the floating supply of stock, and those who had sold it short, and borrowed it for delivery through their brokers, had sold stock that technically was not in existence.

Northern Pacific in 1901 was a 4 per cent dividend payer. At 120 it looked high. At 140 it "looked higher." The rapidity of its rise invited short selling, which proved to be the ruin of many a man shortsighted enough not to limit his risk. The corner proved that there were a great number of shorts.

Recent Examples

The case of Bethlehem Steel in 1915 was not so very different, except that it took several months for it to advance from its low point of that year (46¼) to 600 in the same year, and to 700 in the following year. The elapsed time made the agony long drawn out for the short interest.

General Motors sold around 30 in 1914, and rose to 850 within a year or two—it

It is a simple business proposition. You would not engage in any mercantile business wherein you would have to employ $5,500 with an expectation of only $200 or $300 profit.

In the case of a stock like U. S. Steel, which has 5,083,025 shares, the risk in selling short without a stop order is not so great, but this should only be done by those who are in close touch with the market, and who are ready to close the transaction when it shows definite signs of going against them.

The man who aims at a small profit, while leaving himself open to an unlimited loss, and who persists in letting his loss run, is reversing the rule which leads to success in trading operations. This rule is "Cut your losses short, and let your profits run."

It is an old rule, but it should be all the more highly respected because of its age. I find that it works well.

(Series to be continued.)

Amer. International Corporation and its Marine Holdings

International's Profitable Investment—Companies It Controls—Position of Its Stock

By MORTON STURGES

THERE has been considerable comment as to the benefit accruing to the American International Corporation, owing to its holdings in the common and preferred stocks of the International Mercantile Marine Company.

In furthering the development of its foreign trade, the American International acquired a large interest in International Mercantile Marine, and it is stated that almost two-thirds of the $3 dividend paid last year on American International was derived from its ownership of International Mercantile Marine preferred, paying $6 a share and a 10 per cent distribution on accrued dividends aggregating 82 per cent.

Apparently formal announcement of the disposal of the British tonnage of the International Mercantile Marine to a syndicate of British ship owners now awaits only the settlement of details. The report is that there are several points remaining to be negotiated and while no official statement has been made, the sale is generally regarded as probable. The deal involves over $100,000,000 cash and 950,000 tons of shipping. The Company has been compelled to allow its British subsidiaries' profits to accumulate in their treasuries; sufficient, it is thought, to pay off all their funded indebtedness of $13,250,000 and permit them to liquidate on an attractive basis for the parent company entirely aside from the sum to be realized at present.

TABLE I—AMERICAN INTERNATIONAL CORPORATION.
Consolidated Balance Sheet—December 31, 1917-1916

	1917	1916
Assets		
Current Assets:		
Cash and Call Loans	$2,374,497.93	$2,954,313.47
Inventories of Merchandise	2,222,699.72	2,167,514.86
Accounts Receivable and Sundry Advances	3,086,634.53	1,864,818.17
Interest Accrued Receivable	125,373.96	148,201.34
	$7,809,206.14	$7,134,847.84
Less Branch Office Cash in Transit	221,402.40	....
Investments, Bonds, Stocks, etc.	27,313,579.41	23,226,558.49
Real Estate	1,732,582.60	....
Furniture and Fixtures	....	40,883.25
Unexpired Insurance	....	2,851.03
Working and Deferred Assets	472,049.38	....
Total Assets	$37,106,015.13	$30,405,140.61
Liabilities and Capital		
Capital Stock:		
Preferred Stock, 10,000 shares (less 500 shares held in Treasury) 60% paid	570,000.00	....
Preferred Stock—10,000 shares, 50% paid	....	500,000.00
Common stock—490,000 shares 60% paid	29,400,000.00	....
Common stock—490,000 shares, 50% paid	....	24,500,000.00
	$29,970,000.00	25,000,000.00
Notes and Accounts Payable	2,789,215.47	2,960,339.00
Surplus	3,507,513.34	1,923,539.43
Reserve for Taxes	839,286.32	521,261.75
Total Liabilities and Capital	$37,106,015.13	$30,405,140.61

Marine Could Liquidate

Assuming that the Marine Company will receive at least $125,000,000 in cash, no matter how much more it receives from the undivided profits of the British companies, this sum would be amply sufficient to wipe out its entire present funded indebtedness, pay off all the accrued dividends on its preferred stock, and even permit liquidation of the company. The International Mercantile Marine now has outstanding $39,061,000 1st mortgage collateral trust 6 per cent bonds dated October 1, 1916, and redeemable at 110 and interest, on any interest date on four weeks' notice. The next interest date will be October 1, next. To retire these, therefore, will require $44,138,930 in cash. Next comes $51,725,500 of 6 per cent cumulative preferred stock, preferred as to assets and dividends, and with 67 per cent of unpaid back dividends accumulated upon it. To pay off the back dividends would require $34,656,085, and to retire the preferred stock at par a total of $86,381,585.

The history of the American International Corporation goes back to the autumn of 1915 when some of the remarkable opportunities caused by the upset in economic conditions had become apparent. The Corporation was formed at a time when it was evident that the leading European nations would be compelled to abandon a large part of their foreign trade. Mr. Frank A. Vanderlip, on behalf of his associates, organized the company. It was the first organized attempt to develop foreign trade relations on a large scale in this country.

SUBSIDIARIES of the American International Corporation are:

The Allied Construction Machinery Corporation.

The Allied Machinery Company of France.

The Allied Machinery Company of America.

The Allied Sugar Machinery Corporation.

Carter, Macy & Company.

The China Corporation.

Siems-Carey Ry. & Canal Company.

The American International Shipbuilding Corporation.

New York Ship Building Company.

G. Amsinck & Company, Inc.

International Products Company.

The most interesting of these endeavors has been the construction for the Government at Hog Island, Philadelphia, of the largest ship building plant in the world. Although the contract which the International Ship-building Company has with the Government has been subjected to criticism, a vast amount of actual work has been accomplished.

A Speculative Investment

The American International stock is not an investment but is more of a speculation. The income account shows that the Company is paying conservative dividends and on the 490,000 shares of common stock outstanding, showed actual profits last year much larger than the dividend paid. There is $1,000,000 preferred outstanding. These shares were reserved as managers' shares in order to provide an inducement and an incentive to the most able men who have been chosen to manage the affairs of this great organization.

TABLE II—AMERICAN INTERNATIONAL CORPORATION

Consolidated Income and Profit and Loss Account for the Years Ended December 31, 1917 and 1916.

	1917	1916
Interest and Div.....	$3,026,479.85	$502,426.64
Earn. from Operat'ns	3,803,914.61	3,337,450.10
	$6,830,394.46	$3,839,876.74
Net Earnings........	3,746,122.17	2,483,943.11
Surplus at Dec. 31..	3,507,513.34	1,923,539.43

In a certain sense, the American International is a speculation for the reason that it is new and unseasoned. It is a very ambitious proposition. The stock is not selling high and if held permanently, it is very likely to show appreciation. The board of directors of this organization is comprised of the greatest combination of American business men of different lines ever brought together in one organization.

It is generally conceded that American business men, when properly guided, will be fully as efficient in foreign fields as in domestic affairs.

American Woolen's Bulwarked Position

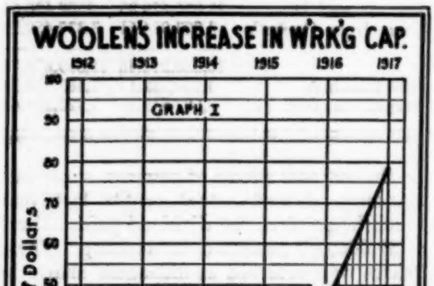
A Late-Blooming War Bride—Cash and Working Capital Positions—Equities Behind the Common—An Interesting Speculation

By ARTHUR CONANT

IN the present American Woolen Company it is difficult to recognize the woebegone corporation of a few years ago. Everyone remembers the panic into which the concern and its stockholders were thrown by the passage of the last tariff bill with its drastic reduction of the tariff on wool, and the deficits for 1913 and 1914 (see table) are proofs that their forebodings were well grounded.

A Slow War-Bride

But the war revolutionized the company's entire affairs and prospects, and



American Woolen, a late-blooming war-bride (if the reader will pardon the mixed metaphor) is now enjoying prosperity which, if it could have been foreseen five years ago, would have been regarded as truly magical.

In the first place the war reduced the competition of the looms of England and the Continent to a negligible quantity, and at the same time and by the same token brought into existence a tremendous demand for woolen goods for uniforms, blankets and various other war purposes. The Allied Governments, with the English control of Australia's wool clip, were able to provide for the major portion of their war needs, but the net results to Woolen were distinctly favorable. In place of a deficit of $678,000, round figures in 1913, the year 1914 showed net profits of approximately $2,789,000 or almost the preferred dividend requirements. In 1915 the improvement continued and the net mounted to $5,160,000, which allowed, after preferred dividends, a balance of 6.4 per cent. on the common stock. The preferred stock, which had sold down as low as 72½ in 1914, recovered to a high of par in 1915, and the common from a low of 12 to a high of 57½. In 1916 net profits were $8,210,000 and the balance on the common 15.3 per cent.

In 1917 this country hurled its sword into the scales of the world war and things really commenced to hum for American Woolen. Last year net profits made a grand total of $15,665,000, with a balance on the common equal to 40.4 per cent. Curiously enough, in spite of the greatly improved showings of 1916 over 1915 and 1917 over 1916, the best that the preferred could do in both 1916 and 1917 was to sell 2 points above the 1915 high and the common a little more than 1 point above the 1915 record. Notwithstanding the high earnings of the company and its constantly increasing volume of business, the stock market refused to take cognizance to any great extent of the company's improved position. The war-bride was willing but the investor was slow.

Huge 1917 Earnings

Moreover the 1917 statement showing 40.4 per cent. earned on the common stock

by no means indicates the full extent of earnings for $3,000,000 was charged out of income as a reserve for taxes. Had there been no reserve for taxes the company would have shown 55 per cent. on its common stock last year or within 4 points of the record market price for the issue to date. Without going so far as to assume that Woolen is a second Bethlehem Steel, it is instructive to note that a similar situation existed in regard to the earnings and market price in connection with the latter corporation some months before it began its spectacular rise which carried its stock from the fifties to a high price of 700 per share.

It will be noted from the tabulation which accompanies this article that in spite of the splendid 1917 showing the total profit and loss surplus showed a gain at the end of the year of only approximately $3,000,000. This is because the company took advantage of its bonanza year to write down liberally and in that way bulwark the equities behind its securities. A reserve totaling $1,539,000 was set up for depreciation, $1,250,000 as a reserve for an insurance fund and $1,250,000 as a reserve for a pension fund. Together with the tax reserve American Woolen thus set aside approximately $7,000,000 last year for extraordinary purposes.

Working Capital and Cash

As shown by the two graphs accompanying this article the company now occupies the strongest position it has yet held in regard to working capital and cash. In spite of the increase in inventories last year totaling more than $19,000,000, Woolen was able to report cash on hand at the end of the year totaling nearly $9,000,000, or an increase of more than $7,000,000 over 1916. Accounts receivable showed an increase of about $4,000,000, while $2,539,000 of quick assets were in the form of Liberty bonds. On the quick liabilities side current vouchers and accounts were reduced about $3,000,000 to a total of $2,527,000, while bank loans increased nearly $6,640,000. With its large cash resources the company could undoubtedly reduce its debts to banks materially if such a course were deemed advisable, but like many other industrials it prefers to maintain a strong cash position.

Advance payments, probably on account of governmental war contracts, totaled $16,400,000, as against $1,100,000 on Dec. 31, 1916, and the company's net working capital totaled $34,133,000, as against 25,418,000 the year previous, a gain of approximately $8,700,000.

Present Earnings

American Woolen has orders on hand at the present time totaling more than $100,000,000, or approximately a year's capacity. The company is rapidly enlarging its facilities, but with governmental plans in view to equip 1,500,000 soldiers for overseas service next winter, it appears that Woolen's chief problem for a long time to come will be how to handle the business it will receive. As the company is devoting from 75 per cent to 80 per cent of its capacity to Government work, it seems that the civilian demand will have to take what it can get this year.

It is of course too early to attempt to predict what Woolen's 1918 showing will

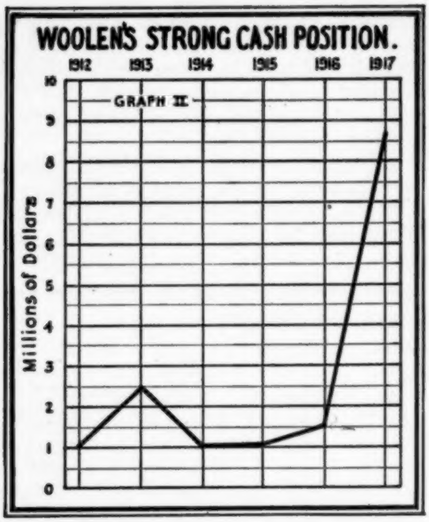
AMERICAN WOOLEN'S WAR PROSPERITY

Years Ended Dec. 31	Net Profits	Bal. for Divs.	Earned on Pfd.	Paid on Pfd.	Earned on Com.	Year's Surplus	Total Surplus
1910	....$3,995,311	$3,456,647	8.6%	7%	2.2%	$656,647	$11,171,455
1911	 3,225,916	3,225,916	8.0	7	2.1	425,916	11,597,371
1912	 3,722,988	218,253	8.0	7	2.0	418,253	12,015,624
1913	.... *677,685	*1,179,791	..	7	..	*3,979,791	8,035,833
1914	 2,788,602	2,788,602	6.9	7	..	*11,398	8,024,435
1915	 5,160,295	4,080,686	10.2	7	6.4	1,280,686	9,305,121
1916	 8,210,761	5,863,819	14.6	7	15.3	2,063,819	11,368,940
1917	15,664,985	10,883,155	27.2	7	40.4	†3,044,155	14,413,095

*Deficit.

†After extraordinary reserves charges as follows: Depreciation, $1,539,000; insurance fund, $1,250,000; pension fund, $1,250,000.

be, but that its turnover will prove a record one is the outlook. When one comes down to net profits, one encounters so many varithe first place the margin of profit will be less than 1917, because of the governmental fixed price for wool, and labor costs will be higher. In the last two years wage advances have totaled more than 60 per cent.



Then there is the matter of taxation which is under consideration at Washington as this is written. Sooner or later the Government is bound to increase the tax on profits, but whether it is done now and goes into effect at once or later means much to American Woolen.

Woolen's Prospects

Summed up, then, it appears that this year American Woolen is in line for a record gross business, accompanied by higher costs, a smaller differential between raw and finished material prices and larger taxes. Whether the greater volume of business will make up for the other less favorable factors is, of course, indeterminate at this time, but best opinion is that the company should be able to approximate, if not equal, the balance of 40.4 per cent earned on the common last year. If last year's earnings on the common are attained, it will mean that for three years the company has averaged 30.7 per cent on its junior issue. In view of these earnings and the prospects for an increasing volume of business, it would appear that at 55 the common stock has by no means discounted its earnings and the company's greatly strengthened financial position.

In considering a purchase of the common, however, the investor must never lose sight that American Woolen's prosperity is essentially war-begot, and while it should continue as long as the war lasts, in which event the common should sell considerably higher, it is likely to cease suddenly with the ending of the war. Whether American Woolen will be protected by a tariff barrier after the war is a matter merely of conjecture. The stock must be regarded, therefore, as a speculation, but one with exceedingly interesting possibilities.

As the company has no bonds ahead of the preferred, the latter, with its long dividend record and large margin of earnings over dividend requirements, may be regarded as a sound investment issue. Its yield at 100 is only 7 per cent and is not especially attractive in high-yield times like the present.

The common stock appears to be well buttressed by assets. American Woolen's plant and mill fixtures are carried on its balance sheet at $41,900,000, and their replacement value has been estimated by experts at approximately $50,000,000. Allowing plant assets to offset the $40,000,000 preferred stock, we have a balance of assets for the common which figure out to an equity of between $175 and $180 a share for that issue.

GREATNESS does not consist in never falling, but in rising every time you fall.

—CONFUCIUS.

The New Haven Puzzle

Advance in Stock Not Explained by Present Status of Company—Dividends Apparently a Long Way Off

By FREDERICK LEWIS

HAS New Haven turned the corner? The recent advance in the stock from the twenties to close to fifty has caused this question to be asked many times of late. There is no doubt but that New Haven is now in much smoother waters than it has been for several years. In fact this splendid railroad system, which has a practical monopoly of the transportation of the New England states, has only just emerged from the shadow of receivership.

There is little or no doubt that the action of the United States Government in taking over control of the railroads of the country saved New Haven. The company was facing the necessity of taking care of $45,000,000 notes which were due April 15, 1918, an almost impossible task under the conditions obtaining in the security market, combined with the difficulties the railroads were laboring under, because of increased operating expenses. The Government is now guaranteeing earnings equal to the average earnings for the three years ending June 30, 1917 and in addition has taken care of New Haven's financial requirements including the refunding of the $45,000,000 notes.

TABLE I—PRICE RANGE OF STOCKS.

	High	Low		High	Low
1901	217	206½	1910	162	149
1902	255	209½	1911	151⅛	126⅞
1903	225¼	187½	1912	142¼	126
1904	199	185¼	1913	129⅞	65⅝
1905	216	191¾	1914	78	49⅝
1906	204⅞	189½	1915	89	43
1907	189	127⅜	1916	77⅞	49½
1908	161	128⅝	1917	52⅞	21
1909	174¾	154	*1918	45⅞	27

*To May 29.

Guaranteed Earnings

Under the earnings guarantee New Haven will receive a net income, after all charges, equal to approximately 2½ per cent on the capital stock. This return, it is true would not appear to offer very bright prospects for any immediate resumption of dividends on the stock, but will enable the company to put back into the property close to $4,000,000 annually.

A glance at the accompanying graph will give the reader a good idea of the reason why New Haven was brought so close to receivership. It will be noted that for a very long period of years practically all surplus earnings were paid out in dividends and that in several years dividend payments were considerably in excess of the amount earned. In other words the property was bled in order to keep up the dividends. This, in connection with several very unfortunate investments, brought about the crisis through which the company has just passed. In the past few years, however, as the graph shows, substantial surplus earnings have been put back into the property, with the result that the system has been undergoing an upbuilding process instead of being allowed to depreciate, as was the case before the new management took control. In the last four years about $15,000,000 surplus earnings have been used to rehabilitate the property.

Future Possibilities

Taking a long range view of New Haven it is not without attractive possibilities. As has been already noted its lines run through a wonderful territory and there is good ground for the belief that when the Government turns back control, which it is planned to do three years after the ending of the war, the company will be able to develop an earning power that will permit a resumption of dividend payments.

TABLE II—NEW HAVEN'S DIVIDEND RECORD.

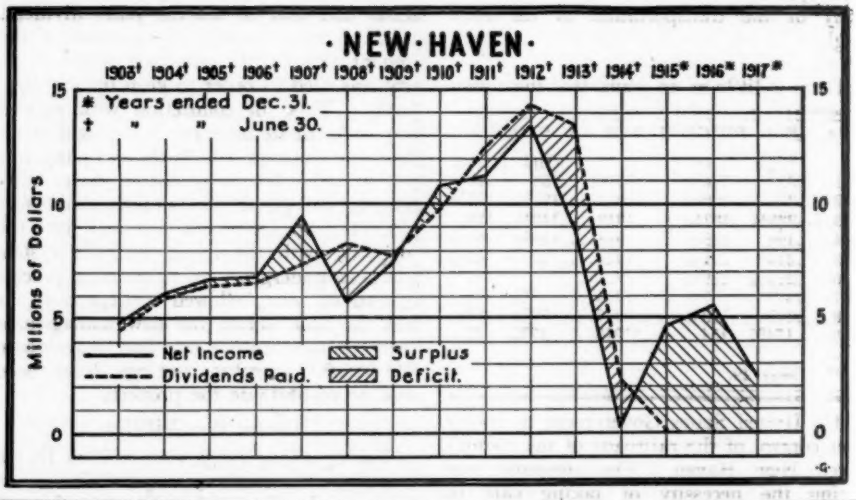
1873-89	10%
1890	7½
1891-5	10
1896-1912	8
1913	7½
1914	1½
1915-18	None

With dividends apparently several years

off, however, the present price of the stock would appear to be high when comparison is made with other rails. In fact no satisfactory explanation has yet come to light why New Haven should sell on its merits higher than such a stock as, for example, Wabash preferred A which pays 4 per cent and whose dividend is reasonably secure, or Erie 1st preferred which is apparently much closer to dividends and is selling nearly fifteen points lower.

Investments

A careful examination of New Haven's investments offers no clue to the situation.



It is true that some of these investments are likely to show up in the future somewhat better than they do at present, but this improvement would hardly be of sufficient proportions to materially increase New Haven's income. In the past advances in the stock have frequently been accompanied by rumors of other roads seeking control but, of course, with control of the railroads in the hands of the Government any such idea is not to be entertained at the present time.

It is estimated that New Haven, under the 25 per cent rate increase that the Government will put into effect and allowing for the increase in wages will have an earning power of around 8 per cent on its stock, but of course it will only receive the 2½ per cent allowed by Government regulations. When the Government gives up control of the roads there is naturally no assurance that this increase in freight rates will remain in effect.

Capitalization

New Haven is capitalized with $157,117,900 stock and $260,000,000 bonds, notes, equipment obligations, etc. Total capitalization per mile is a little over $300,000. The last balance sheet issued, as of December 31, 1916, showed current assets of $28,255,000 as against current liabilities of $12,708,000. Profit and loss surplus was $12,959,774.

At present prices of close to 45 New Haven stock can hardly be regarded as other than a risky speculation. On the facts brought forth in this article there would appear to be no justification for the payment of dividends for several years to come. This does not mean to say that the stock will not advance further as the point should be borne in mind that non-dividend paying stocks which have had a large advance frequently attract a big volume of short selling and the upward move is continued at the expense of the shorts. This is very possibly the situation in New Haven stock.

Railroad and Industrial Digest

These notes are a record of recent price-affecting FACTORS and are not to be regarded as RECOMMENDATIONS to purchase or sell.

Note.—The Railroad and Iudustral Digest, Notes on Public Utilities, Oil Notes and Mining Digest, contain condensations of the latest news regarding the companies mentioned. The items are not to be considered official unless so stated. Neither THE MAGAZINE OF WALL STREET nor the authorities for the various items guarantee them, but they are selected with the utmost care, and only from sources which we have every reason to believe are accurate and trustworthy. Investment commitments should not be made without further corroboration.—*Editor*.

RAILROADS

ATCHISON—Report for 1917—Shows a net income practically identical with its earnings in 1916. The net available for dividends was $38,185,547, as compared with $38,122,189 in 1916. It was equivalent to $14.50 a share on common after payment of preferred dividends. The gross revenue from operations was $165,529,519, an increase over 1916 of $21,239,281. Increases in operating expenses cut down the increase in net revenues to $4,429,890, to a total of $60,306,640. Taxes increased $5,164,204. A decrease in the fixed charges, due to a reduction in the company's funded debt and a slight increase in non-operating income made up for this. After payment of dividends, $7,057,000 was carried to profit and loss, bringing the surplus up to $33,230,068.

ATLANTIC COAST LINE—1917 Earnings—Operating revenue was $44,063,331, an increase of $6,741,246 over 1916. The surplus after charges was $10,834,091, an increase of $966,456 over 1916. After preferred dividends, surplus was equal to $15.78 a share on common, as compared with $14.37 in 1916.

CHESAPEAKE & OHIO—Deferred Dividend Action—Failure of the directors to take action at their meeting, May 16, on the semi-annual dividends was due chiefly to a desire to have as definite an idea as possible as to what the contract with the government would be before doing so. While an adjournment was not taken to a definite date, a special meeting may be called by the chairman at any time. Progress is being made on the working out of a general form of contract, and it is hoped that this will be completed within a week or ten days more. At the recent annual meeting the acquisition of a number of its affiliated lines and branches was approved. They include the following: Kanawha Bridge & Terminal Co., Gauley & Meadow River Railroad, Logan & Southern Railway, Pond Fork Railway, Piney River & Paint Creek Railroad, Elkhorn & Beaver Valley Railway and the Chesapeake & Ohio Northern Railway. This action brings under its control practically all of its branches and extensions.

COLORADO & SOUTHERN—Report Shows Surplus—Surplus income was $3,607,800 after charges, as compared with $3,011,227 for 1916. Total operating revenue was $18,685,810, an increase of $2,216,532, and balance after expenses and taxes was $5,981,642, an increase of $356,024. The earnings on the common was $9.44 a share, as compared with $7.52 in 1916.

CUMBERLAND VALLEY—Earned 32.28% on Common—Report for 1917 shows an increase in operating and net income, as compared with 1916. The increase amounted to $180,962 on net income to a total of $1,603,903, which is equivalent to 32.28% on common, after paying the 8% dividends on both classes of preferred. The Pennsylvania RR. owns all except $20,000 of the common and an equal proportion of the preferred stock of the company. In 1917, the gross operating revenues of the road were $4,838,904, net revenues $2,297,061, and operating income $1,826,294. The sum of $1,052,720 was transferred to the surplus account for the year.

DENVER & RIO GRANDE—To Pay Bond Interest—Bond interest amounting to $2,400,000 and including the June 1 coupon on $8,335,000 improvement mortgage 5s, $300,000 semi-annual interest on $15,000,000 Rio Grande Western consolidated 4s, payable April 1; the $825,000 semi-annual interest on its $32,922,000 first and refunding mortgage 5s, payable February 1, and all the belated coupons due January 1 on bonds principally held held by foreign owners, will be paid off within a few days. The payment was assured by an advance of $1,500,000 by the Railroad Administration on account of the first quarter's rental, by the Equitable Trust Company's purchase of $1,800,000 Treasury assets and by the $625,000 cash in the company's treasury.

HUDSON & MANHATTAN—Bond Plans—Activity in the 5% adjustment income bonds of the company has given rise to reports that the management is considering the adviseability of again placing them on an interest-paying basis. Interest on these bonds was passed on Feb. 26, 1917, as $340,000 was appropriated to the reserve fund which absorbed the entire amount of surplus earnings that might have been available for interest purposes. This action was taken because of

the higher cost of labor, fuel supplies, etc. Interest at the rate of 2% per annum had been paid on the bonds from Oct. 1, 1913, to Oct. 1, 1916, inclusive.

LOUISVILLE & NASHVILLE—Operating Expenses Cut Into Earnings—For the first quarter of fiscal year indicates that the road is still subject to vicissitudes in the income account that no amount of operating efficiency can altogether overcome. Its operating revenue was $20,814,877, as compared with $17,258,903 for the corresponding quarter in 1917. The operating expenses reached $15,852,272, requiring 76.15% of the operating revenues. For maintenance of way and structures the road expended $2,388,818, or 11.5% of operating revenues as compared with $2,041,191 in 1916.

MINNEAPOLIS & ST. LOUIS—Consolidation Suit Dismissed—Judge Hough of the United States Circuit Court of Appeals decision in the District Court dismissed the suit brought by William Mitchell and others against the Des Moines & Fort Dodge Railroad Co., and the company to prevent the consolidation of the two properties, and to compel payment of dividends on preferred stock owned by the Eno estate at such rate as the court might direct. Since the commencement of the suit, the consolidation has been accomplished, a temporary injunction to prevent which had been sought and denied. The petitioners still insisted upon the payment of the dividends claimed to be due on the preferred stock.

MINNEAPOLIS, ST. PAUL & SAULT STE. MARIE—Report—Report for 1917 shows total operating revenue of $20,726,280, compared with $21,576,320 in 1916; net operating revenue was $6,631,510, contrasted with $9,518,175 in 1916 and net income after deductions was $2,746,429, against $5,258,595 in the previous year.

NEW YORK CENTRAL—Budget for 1918—Detailed budget shows that the $70,672,087 authorized by the National Railroad Administration is to be spent to bring the system's total allotment up to $163,000,000 of authorized betterment, equipment and extensions expenditure. Improvements in and about the Grand Central Terminal will total for 1918 $1,100,000, including $500,000 for a boiler plant and substation under Forty-third street. The budget is divided as follows: For additions and betterments, $32,428,693; for equipment, $38,168,394; for extensions, $75,000. The authorized expenditures for roadway and facilities are divided: Buffalo and east, $22,847,493; west of Buffalo, $9,656,200.

NEW YORK, NEW HAVEN & HARTFORD—Advance of $24,000,000 by R. R. Administration Under Negotiation—No definite understanding has as yet been reached between New Haven officials and the railroad administration relative to the $24,000,000 to be advanced by the government. Construction already under way will require $14,000,000 in 1918. This will be spread over the whole system and includes new sidings, heavy rails, new ballasting of road bed and enlargement of the freight terminal at New Haven, together with the completion of the Thames river bridge. The company is to place orders for 1,500 coal cars, 100 cabooses, 50 more refrigerator cars, making 100 in all, and 10 more of the Mohawk type locomotive.

NORFOLK SOUTHERN—Seeks New Rates—Application has been made to Commerce Commission to cancel one-way party rate of $9.90 per person for parties of five or more from Pinehurst, N. C., to New York City, and to apply a rate of $12.79 per person for parties of 10 or more. It also asked for cancellation of one-way fare of $3.90 from Pinehurst to Norfolk and Portsmouth, Va., and $11 to Boston and Providence, substituting $5.80 to Norfolk and Providence; $14.75 to Boston and $14.25 to Providence.

SEABOARD AIR LINE—Report—Its net income was nearly cut in half last year owing to an increase of $169,562 in taxes, a decrease of $69,056 in other income, an increase of $261,362 in hire of equipment debit and an advance in other charges of $147,632. Net amounted to $720,641 in 1917 compared with $1,389,808 in 1916. It was equal to $3 a share on the 4% preferred after an allowance of $2,238 for dividends on the 6% preferred. In 1916 the full dividend on both classes of preferred was earned with a balance of $1.17 a share for common. The net income increased the final profit and loss surplus from $5,795,654 to $6,343,050. The operating revenue exceeded $30,000,000 for the first time, but operating expenses increased $4,185,271 against the $4,160,659 expansion in gross.

SOUTHERN RAILWAY—Improvements—The company will build a 100-acre train yard at Caswell station, near Knoxville, at a cost of not less than $300,000. Its capacity will be 3,000 cars. Twenty-two miles of track will be constructed. A double-track in Nashville, N. C., is also contemplated.

WESTERN MARYLAND—Increased Operating Expenses—Road's operating revenues for the year were $13,638,449 as compared with $11,967,981 in 1916, but increase in operating expenses was considerably larger, disbursements for rail operations for 1917 totaling $9,561,315 as against $7,516,221 the previous year. Other increases in disbursements brought the total operating income for 1917 down to $3,552,617, as compared with $4,046,530 during the year before.

WISCONSIN & NORTHERN—Proposed Extension—Subject to the permission of the Director-General of Railroads, this company will construct a 14-mile extension from Black Creek, Wis., to Appleton. Residents of Appleton have subscribed to an issue of $200,000 of the company's 6% notes, as required in order to bring about the extension.

ALLIS-CHALMERS—Big Improvement in Earnings—Net of $300,000 after allowances for taxes, in January expanded to over $600,000 in March with prospects of further improvement. Shipments during May will run about $2,500,000 or at the rate of $30,000,000 a year, against $26,000,000 in 1917.

AMERICAN CAR AND FOUNDRY—Record Earnings—Report for fiscal year ended April 30, 1918, should show biggest earnings for any 12 months' period in its history. Earnings in the 1916-17 year totaled $8,210,872, equal to 27.37% on the common stock. Working capital amounted to $26,559,182 and was probably increased to around $29,000,000 on April 30 last. This would be equal to about $49 a share.

AMERICAN COTTON OIL—Expected to Earn 12%—Despite excess profits tax it is believed that the balance available for the common, after interest charges, taxes and preferred dividends will be three times those of the preceding year when the company showed share profits of $4.56. This is based on actual results for the first seven months of the fiscal year with the returns for April estimated.

AMERICAN LOCOMOTIVE—New Contract—Government order for 700 locomotives arrived in the nick of time as forward business was being worked off at a rate, which in a few weeks would have forced drastic curtailment of manufacturing operations and the consequent disruption of the working organization through the loss of skilled mechanics. The contract adds practically $40,000,000 business, pushing unfilled orders to $60,000,000 mark, since the first of the year of between $10,000,000 and $15,000,000.

AMERICAN SUGAR REFINING—May Be Allowed Increase in Refining Margin—Aside from the plausible one that sugar stocks as a group have been rather conspicuous market laggards, there is probably another reason for the strength in American Sugar. There is a probability that the government may soon allow the sugar refiners an increase in the refining margin. Under the agreement of last year the operating difference to cover all refining costs and expenses, loss in conversion of the raw product, and profits, is limited to one and three-tenths cents a pound over the approximate average cost of raw sugar. Refiners estimate that since this margin was fixed refining costs have increased about ¼ cent per pound. Last year the company sold about 6,500,000 barrels of sugar (350 pounds to a barrel) on which volume 1/8 of a cent per pound would amount to nearly $3,000,000, or almost enough to pay the common dividend.

AMERICAN WOOLEN—Has Unfilled Orders of $90,000,000—Production has been steadily increased this year, yet orders today are $10,000,000 greater than Jan. 1. Total is now in excess of $90,000,000. Government orders are for an immense yardage of suitings, shirtings, blankets and overcoatings. Various army orders call for delivery beyond the first of the year, but the bulk of the business calls for delivery before November. Before 1914 it was a good year that showed $1 of sales for every dollar of capitalization. Now it produces $2.50 gross for every $1 of invested capital. All of the 50 odd mills are now working at the greatest possible capacity.

BALDWIN LOCOMOTIVE—Manufacturing Profit—Spring records have been surpassing all records. April net was in excess of $1,500,000 and May will run up to $2,000,000. It is definitely assured of profits of at least $5,000,000 for its second quarter. These earnings are subject to year-end adjustments and charge offs.

CUBA CANE SUGAR—Passes 3,000,000-Bag Mark—Production has passed the 3,000,000-bag mark. This is within 262,000 bags of entire output for the 1916-17 season. Some of the larger mills have still a good deal of cane to grind, so that a material gain in production over last year is assured. The insurrection on the island and a lower sucrose content of the cane, reduced profits last year, the latter representing about $500,000 of additional profits which the company would have received had the sucrose content been equal to that of the previous year.

DISTILLERS SECURITIES—Has Equity of $10,000,000 in Its Whiskey—Quotation on the whiskey market is $3.20 bid, $4 asked. It is understood that it has on hand approximately 5,000,000 gallons, which stand on its books at cost. Its equity in this constantly appreciating inventory is close to $10,000,000. Its immense alcohol business, as long as the war lasts, will tax to the limit its productive capacity of 7,500,000 gallons a month.

INTERNATIONAL MERCANTILE MARINE—Sale of British Tonnage—Several weeks ago plans were under active consideration for the sale of this property, but obstacles developed which prevented their being carried out along the lines originally intended and for the time being the matter was permitted to rest in abeyance. The negotiations were never permanently abandoned, and from time to time views between the negotiating interests have been exchanged by cable. Recently a meeting of the board was held for the purpose of formulating a reply to a cable from the other side. It is understood that another meeting will be held, but just what will take place at that time cannot now be accurately stated.

PIERCE-ARROW—Earnings—Allowing for depreciation in plant and war taxes, net profits for the three months ended March

31 amounted to $1,231,867. Of this amount $512,500 was paid out during the period in dividends on both classes of stock. This rate of net is not expected to continue during the entire year. Satisfied if the final accounting for the twelve months shows earnings up to those of 1917 when the amount applicable to dividends amounted to $3,598,748. The company figures on the manufacture of 1,500 passenger cars this year, as compared with 2,600 in 1917. This means a reduction in passenger-car output of 40%. The truck output of 5,000 will be about the same as in 1917.

SLOSS-SHEFFIELD STEEL—Earnings—In 1917 were 15.78% on its common, which would fully have justified the continuation of dividends throughout. It was decided in the second quarter that no further distributions should be made until after a careful appraisal of the properties. This was carried out and the appraisers' report showed that the properties had been carried on the books at a conservative valuation. This fact, together with the year's earnings, it is considered warrants the repayment of the passed dividends. Earnings for the first quarter of the current year were over $1,250,000 or at the rate of $45.28 annually on the common stock after preferred dividends.

SOUTH PORTO RICO SUGAR—To Vote on Stock Increase—Shareholders will vote June 4, 1918 on increasing the authorized capital stock, from $10,000,000 to $11,000,000, consisting of 110,000 shares, par $100, of which $5,000,000 shall be 8% cumulative preferred stock and $6,000,000 common. Good progress is being made with the erection of the sugar factory at La Romana, Santo Domingo, and other improvements and the planting of new cane fields. The cane grown during the current crop will be approximately 200,000 tons, all of which is being shipped to its Guanica factory. The increased plantings at La Romana are expected to provide upwards of 300,000 tons of cane for the crop of 1918-19.

UNITED ALLOY STEEL—First Quarter's Gross—Plants with a capacity of 60,000 tons of ingots a month, were operated at 95% of capacity in April and are running at the same rate during the current month. Allowing for repairs which are constantly necessary at steel plants, this can be considered 100% production. For the first three months gross earnings were larger than those for the first quarter of 1917. After allowing for excess profits taxes, net earnings in the first quarter were as good as those for the corresponding period of 1917. About 50% of its production is for the United States Government and the Allies. This percentage of war work is further increased by orders from manufacturers with Government orders.

UNITED FRUIT—To Cut Down Note Indebtedness—On June 1 with a payment of $160,000 it will clean up last of its 5% serial debentures maturing on that date. On July 1 it will redeem $825,000 of its 1923-1925 4½% debentures. All this is on top of a payment of $10,000,000 in liquidation of its 5% notes on May 1. In addition its English subsidiary, Elder & Fyffes, will probably anticipate during the summer a substantial part of its $1,250,000 bonded indebtedness. The company will by end of its fiscal year have reduced its bonded indebtedness to approximately $5,500,000. United Fruit's sugar crop is coming along nicely. It is about 60% made and 40% shipped and if bottoms can be had all will be well.

U. S. RUBBER—Production—Morgan & Wright plant is 300,000 tires behind orders. Capacity is about 12,000 tires daily, but because of labor shortage the present output is slightly under 10,000 tires. Earnings of Morgan & Wright Co. for the first three months of 1918 were over 100% ahead of the corresponding period a year ago. Its plants in Indianapolis, Hartford, Conn., and Providence, R. I., are turning out more than 16,000 automobile tires a day. As far as supplies of crude rubber are concerned, Morgan & Wright has about three months' supply on hand and considerably more on the road.

WHITE MOTOR—Turns 70% to War Work—Over 70% of its capacity has been given over to war work, which consists of the manufacture of army trucks. At least 90% of the 30% remaining is being used in the manufacture of trucks to be used indirectly by private purchasers for war work. In 1917 the company manufactured about 5,900 trucks and 1,000 passenger cars. Its output of passenger cars in the present year will be negligible and may not run in excess of 100 cars, but its truck business is running 60% ahead of last year's production, which indicates that more than 10,000 trucks will be manufactured and sold during 1918. The capacity is 32 trucks a day. A new plant is being built that will bring capacity up to 50 a day.

WILLYS-OVERLAND—Government Orders Close to $40,000,000—In the four months ended May 1, 35,000 passenger cars were manufactured, an annual rate of more than 100,000 cars. In the same period in 1917, production exceeded 50,000 cars and for the year approximated 140,000. Quantity production of Model 4, with which Willys expects to offer real competition to Ford, will get under way by Sept. 1. Close to $40,000,000 in war orders have been received. Deliveries already made on these orders are not over $5,000,000. The price paid for government work is satisfactory to the company. About 50% of Willys-Overland capacity is now given over to government work.

PUBLIC UTILITIES

Will B. R. T. "Come Back?"

A Searching Analysis of Its Traffic and Earnings—Character of Its Contract with New York City—Question of a Charge for Transfers—Will the Government Come to the Rescue?

By J. H. WESTCOTT, JR.

SOME investors seem to have the idea that Brooklyn Rapid Transit's contract with New York City practically assures 6% dividends on the stock, in spite of the fact that so far in 1918 dividend action has been "deferred." That is not true. It would be nearly true if the contract with the city was based on the earnings of the entire system, but the contract covers only the elevated roads.

The importance of this fact is seen when it is remembered that in 1912, when the company's elevated lines were combined into the "N. Y. Consolidated R. R. Co.," those lines furnished less than 39 per cent of B. R. T.'s total earnings. With the remaining 61 per cent of the earnings the contract with the city had nothing at all to do.

Company's Contract with N. Y. City

Brooklyn Rapid Transit owns nearly all the stock of the N. Y. Consolidated R.R. Co. above mentioned. The necessity for the creation of the new sub-company arose from the entrance of the city into a sort of partnership with B. R. T. in the extension of its elevated and subway system. It was therefore necessary to segregate the elevated lines from the surface lines, for which the city did not wish to take any responsibility.

More subways and elevated lines were urgently needed. But private capital shrank from the tremendous undertaking, especially under the legislative restrictions which were imposed. On the other hand, it would have been poor economy for the city to construct a separate system. The needs of the public demanded unified operation and the avoidance of duplications. The solution was finally reached in the dual subway system which is now under construction, and separate contracts were made with the Interboro and the B. R. T.

The city agreed to spend about $119,000,000, including interest, for new construction, and B. R. T. was to contribute its existing elevated lines and equipment and also to spend an additional amount then estimated at $65,000,000. As a matter of fact, before the work is completed the city will probably have to spend at least $150,000,000 and the company will have to contribute somewhat more than the original estimate.

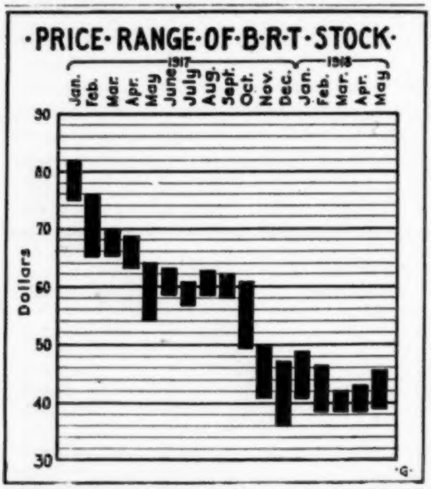
To assure the B. R. T. stockholders of a fair deal, it was provided that the com-

TABLE I—B. R. T. REVENUES TO DECEMBER 31, 1917.

	Gross Rev.	Net.	Co.'s Deductions	Co.'s Deficit	City's Deficit
August 4, 1913 to June 30, 1914......	$7,830,990	$2,975,759	$3,195,446	$219,687	$310,060
Year ended June 30, 1915	8,560,556	3,265,275	3,591,000	325,725	404,661
1916	9,903,520	3,924,467	4,165,959	241,491	604,006
1917	11,371,282	4,358,451	4,608,822	250,371	2,238,516
Six Months ended Dec. 31, 1917........	6,340,886	2,472,156	2,583,101	110,945	1,390,000
Totals	$44,007,235	$16,996,109	$18,144,330	$1,148,221	$4,947,244

pany should receive (after expenses, taxes and depreciation) $3,500,000 annually as a preferential payment. Out of this the interest on capital invested prior to the contract has to be paid, and the remainder can be used towards B. R. T.'s dividends. Then there is to be a second preferential payment to the company equal to 6 per cent on its *new* investment of capital up to the time when all the tunnels are ready for operation; and after that time 6 per cent plus a 1 per cent sinking fund. Next, 1 per cent yearly is to be set aside for a contingent reserve; and after that whatever remains is to be divided equally between B. R. T. and the city.

It will be seen, therefore, that the company is practically assured of a 6 per cent return on its investment in elevated and subway lines and their equipment, *but not upon its total outstanding stock*. That will depend on results from the surface lines.



Incidentally, the new lines constructed by the city are owned by the city and leased to B. R. T. until 1966, but with a provision under which the lease may be ended Jan. 1, 1927, or thereafter. At present it looks very doubtful whether the city will be in a position to take over the operation of the lines at that date.

Increased Subway Traffic

About 100 miles of track have been put into temporary operation. But prior to January 5, 1918, when the Broadway Subway was opened, they merely afforded new facilities for existing traffic. The local traffic of the Broadway Subway constitutes the first new business of the system.

A comparison of revenues and deficits of the N. Y. Consolidated R.R. Company is contained in Table 1.

The deductions have grown because of interest on invested capital. The company's deficit averaged about $260,000 a year while the City's deficit increased from $310,060 on June 30, 1914, to $2,238,516 for 1917. The City had expended $54,-000,000 to March, 1918 and the Company $30,000,000.

Deficits from Operation

On December 31, 1917, the Consolidated Company's total deficit was $1,148,221.42 but, according to the Public Service Commission, this is subject to a reduction of $750,000 for certain revenues excluded from the published reports or a net deficit of $398,221.42. Although this deficit will be made good from future operating earnings it has already been absorbed by the Company as it accrued.

The City's deficit to Dec. 31, 1917, was $4,947,244, which will be added to the capital account, upon which interest must be paid before the final surplus is divided. It may reach $7,000,000 before permanent operation begins.

The results to January 1, 1918, were from a very incomplete system, with the least productive lines in operation.

Since that date, passenger traffic originating at stations on "the City-owned lines" has shown a substantial increase, as outlined in Table II. The total was 27,-860,321 fares for the first quarter of 1918 as against 20,602,821 for the same period of 1917.

On Company-owned lines there was a slight decrease, due perhaps to some diversion of passengers to new lines. This diversion of traffic affects the surface lines considerably. In the last six months of 1917, for example, passengers on the elevated lines of the company increased 11 per cent., but on the surface lines decreased 1½ per cent.

Operating expenses have of course increased, as they have for all companies. Taxes, rentals and interest also rose in 1917. The final result was a small falling

off in net income, reducing the per cent for the stock from 7.54 per cent in 1916 to 6.97 per cent in 1917.

How Can the Notes Be Met?

The B. R. T. Co. has $57,735,000 of its 5 per cent notes coming due on July 1, 1918. It has applied to the War Finance Corporation for assistance, but has asked for considerably less than the amount of the notes. In order to aid in financing these notes, the stockholders authorized the execution of a new mortgage on May 23, 1918, and the issue of bonds aggregating $150,000,000 to take the place of the first refunding gold mortgage bonds, dated July 1, 1902. The rate of interest is to be fixed by the Directors.

There are outstanding only $3,459,000 of the 4 per cent bonds. There were $55,705,000 issued but $29,619,000 have been converted into stock. The others are deposited as collateral or owned by the Company or its subsidiaries.

As the 5 per cent notes were issued for subway and elevated construction, the Company would not have been in its present financial difficulty had it not been for such work. It is doing a business necessary for the successful prosecution of the war, and it would seem equitable for the War Finance Corporation to render some aid. It is probable that substantial help will be given in some way.

TABLE II—DAILY AVERAGE OF PASSENGERS CARRIED IN FIRST QUARTER OF 1918.

	Company-owned Lines.		City-owned Lines.	
	1917	1918	1917	1918
January	362,098	349,768	226,059	284,791
February	357,897	358,475	224,356	313,857
March	372,453	372,703	235,901	330,445
First Quarter	364,658	360,371	228,920	309,559

Transfer Charge Application Denied

Some time ago, application was made to the Public Service Commission for permission to charge 2c for transfers in order to offset increased operating expenses. The Commission was advised by its chief counsel that such a charge would be an indirect way of increasing fares.

The New York Court of Appeals delivered the death blow to this application in its decision in the Rochester Fare case in April of this year.

There remains the hope that the City might consent to increased fares or some modification of the transfer privilege. It is also possible that some joint rate in excess of 5c may be established between the subsidiary companies which are under no obligation to exchange transfers by franchises, common use of tracks or similar necessities.

Prospect for the Stock

From 1898 to 1917 the high was 137 in 1899 and the low was 26¾ in 1907. The high in 1917 was 82 in January and the low 36 in December. The stock suffered from doubt as to the ability of the Company to carry the load of the new subway lines, to pay its notes on July 1, 1918 and from the present high yield basis of dividend paying stocks. The sale of a portion of the Foss holdings also affected the market action. The range since January 1, 1917 is indicated in the graph. The technical position of the stock has been improved by the liquidation and severe decline of last year.

B. R. T. stock at 80 and B. R. T. at 44 are entirely different propositions. The Company had a surplus of $11,967,273 on June 30, 1917. Its earnings averaged 7 per cent for the last nine years. It earned 6.97 per cent for the fiscal year ended June 30, 1917, when the subway contracts were burdensome. Earnings for the fiscal year ending June 30, 1918 will approximate 6.1 per cent if the present volume of business is maintained. They have been somewhat affected by the troubles under which public utilities have been suffering for the past year, but not to the same extent as most other utilities. The prospects are good for a material increase over a period of years following the completion of the subway.

At its present price the stock offers possibilities for the long pull. Even should its dividends be reduced or passed for a short period, the prospects seem good enough to warrant a speculative investment of some part of funds employed for that purpose.

Detroit Edison's Fine Record

Sources of Revenue—Intrinsic Values—Outlook for Securities

By MEREDITH C. LAFFEY

IN the field of public utilities, there are very few large companies which can present so excellent a record of growth and of sound financial progress as the Detroit Edison Company. It is the bright shining light among the subsidiaries of the North American Company, an important public utility holding corporation.

The Detroit Edison began business in 1903, and is a combination of several concerns doing an electric business in and around Detroit, where it enjoys a monopoly. The territory served is roughly 85 by 40 miles in extent and embraces five cities, among them Mount Clemens and Ann Arbor, as well as nearly a hundred smaller places the aggregate population being about 900,000.

The great bulk of the earnings are derived from sales of electricity to private consumers,—81.3% in 1917. The principal other source of revenue is the sale of steam in Detroit—7.1%. In addition, the Company sells current to municipalities, to interurban railways (Detroit United), to the Consumers Power Company at Pontiac, and to the Michigan Central Railroad for the operation of the Detroit River Tunnel. Of the total revenue from all sources, nearly nine-tenths is received from the Detroit metropolitan district. In fact, the company has shown a reluctance to make any further extensions of its lines and doubtless feels that keeping pace with the needs of the territory already covered is task enough for any public utility.

Rapid Growth

The growth of the company has been altogether exceptional, a circumstance which is explained by the tremendous yet substantial progress of the City of Detroit, with its scores of automobile manufacturers, parts makers, and other industries. These industries, with their demands for power, and the thousands of homes peopled by citizens of more than average American prosperity furnish an ideal field for the sale of electricity. The company has contributed to this industrial prosperity by the sale of wholesale power at low rates. The average rate received for current has steadily declined, notwithstanding that production costs could not be reduced proportionately, as shown in Table I.

The decline in the profit per unit of power sold has been more than made up by gains in the amount of business done per dollar of investment.

In order to provide adequate service in response to the rapidly growing demand, plant facilities have had to be expanded constantly. For example, in 1912 the company produced about 206,000,000 kilowatts. In 1917, only five years later, the production was 672,000,000 kilowatts, or considerably over a threefold increase. This is indeed a most exceptional record.

The plant investment was carried at $21,048,794 in 1911. By 1915 it had reached $36,966,830. In 1916 the company put $5,350,317 into additions and extensions, and last year, $8,069,496 more was expended. An even greater amount of work would have been done in 1917 but that the war made it necessary to defer a part.

TABLE I—GROSS AND NET REVENUE PER KILOWATT HOUR (CENTS)

	1912	1913	1914	1915	1916	1917
Gross Rev.	2.125	1.963	2.070	1.974	1.841	1.837
Net "	.901	.787	.899	.903	.837	.672

The aggregate capacity is about 200,000 kilowatts. The principal plant is at Conners Creek, where there are four units and provisions for a fifth. The third and fourth units, of 20,000 and 45,000 kilowatts capacity respectively, have been installed within the last two years. This makes the equipment delivering one third of the generating capacity practically new. At Delray, in Detroit; there are two plants with a capacity together of 93,000 kilowatts. In addition to the foregoing steam plants, there are 4,275 kilowatts of hydroelectric power. For physical excellence and efficiency of operation, the property ranks very high.

Appraised Value

An appraisal of the property was made by the Michigan Railroad Commission, which established a valuation as of June 30, 1915, of $35,087,478, or 90% of its reproduction value. This figure agreed to within one third of one per cent. of the company's book value, a most unusual agreement and indicative of the thorough honesty which the company has observed in its book keeping. Against the assets which, as previously stated, reached $50,386,643, exclusive of net working capital, investments, etc., on December 31, 1917, we find a capitalization of

Funded Debt	$23,224,900
Capital Stock	25,691,600
Total	$48,916,500

The entire capitalization is, therefore, backed by proven tangible assets. It is, moreover, well balanced, with stock slightly in excess of bonds and no preferred stock.

This healthy condition is particularly creditable in view of the fact that further funds have been almost constantly needed for additions. To some extent, additional stock has been offered to stockholders on advantageous terms. Financing has also been done by means of convertible bonds, which were actually converted to a greater extent, proportionately, than has been the case with any public utility of importance in the country, so far as I can recall. Up to the end of 1917, $9,000,000 in convertible bonds had been placed, of which $8,782,600 were converted. Another issue of $3,800,000 bearing a 7% rate and convertible at 100 was recently offered.

The recent earning power of the company is set forth in Table II.

The upward trend of gross revenues has been unbroken for many years, and the only recent setback in the net revenue is that of 1917 when only a slight decrease resulted from the extraordinarily difficult conditions encountered. From 1909 to 1916 inclusive, operating expenses ranged between 59.85% and 54.27% of gross earnings. In 1917 they jumped to 63.79%, but the gain in gross offset most of the increase in expenses. Liberal charges for depreciation have been made, their adequacy being shown by the Michigan State appraisal.

Outlook for the Securities

From 1908 to 1917, gross earnings increased nearly seven fold; net earnings in about the same proportion.

Interest charges only doubled, however, so that the bonds have steadily improved their position. The First 5s of 1933, and the Eastern Michigan Edison 5s of 1931 rank among the best underlying public utility bonds, and the Refunding 5s of 1940 are also a thoroughly sound security.

The stock began dividends at a 2% rate in 1909. In the following year, 5% was paid, then 7% from 1911 to 1915 inclusive, and 8% since. The present rate seems well assured, barring further severe advances in operating costs. In this connection, it is of interest to note that the operating figures for the four months ended April 30 held up fairly well to those of last

TABLE II—INCOME ACCOUNT

	1914	1915	1916	1917
Operating Revenues	$6,495,815	$7,759,932	$10,066,786	$12,279,926
Expenses	3,674,751	4,211,219	5,489,093	7,833,515
Net Revenue	$2,821,064	$3,548,713	$4,577,693	$4,446,411
Depreciation	520,000	600,000	782,000	782,000
Interest	882,312	1,100,055	1,078,280	1,028,562
Balance for Stock	$1,418,752	$1,848,658	$2,717,413	*$2,528,385
Dividends	941,564	1,214,518	1,487,721	1,966,905
Surplus	$477,188	$634,140	$1,229,692	$561,480
Per Cent Earned on Stock	10.52	13.70	14.61	10.28
Per Cent Paid on Stock	7.00	7.00	8.00	8.00

*After allowing $107,463 for Federal taxes.

year and show the full dividend being earned.

The stock sells above par, and has had comparatively little market variation. The following table gives the range in price for the last four years:

	High	Low
1914	113½	112½
1915	134¾	111¾
1916	149	131
1917	145	112½
Present Market	104 bid, 105 asked	

At the current quotation, this stock would seem an attractive permanent investment, in view of the established value of the tangible assets behind it, and the steadily growing earning power of the company. Its immediate future is bound up with the trend of operating costs, and any possible rate action which may have to be taken if the rise in expenses is not checked. It has little or no speculative attraction, but its sound investment value is unquestionable.

Public Utility Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

BOSTON ELEVATED—To Change Hands—Control will be placed in the hands of a board of five trustees to be appointed by the Governor according to a bill passed by the State Senate. Under its terms the period of public control is to be ten years and the trustees are to have full power to fix fares and extent of service without any control or supervision from regulatory bodies. The road shall raise $3,000,000. If $5 per share dividends during the first two years, $5.50, the second two years and $6 the remaining six are not earned, fares are to be raised to one of four fixed scales above the first rate established. If they are earned the excess shall be transferred to the reserve fund.

BOSTON ELECTRIC—To Vote on Preferred Stock Issue—Directors met May 24, and called a meeting of stockholders to be held in Tremont Temple, June 3, at noon, to take such action as the stockholders deem advisable with reference to the acceptance of the act to provide for the public operation of the Boston Elevated Ry. Co. and to take such action as they deem advisable with reference to authorizing the issue of $3,000,000 par value of preferred stock for the purposes specified in the act.

COMMONWEALTH POWER, RAILWAY & LIGHT—Gets Hearing—War Finance Corp. gave a hearing Friday to the corporation which operates interurban railways, street railways, gas, electric and hydro-electric properties in the Middle West. The company has applied for an advance of funds under the War Finance Corp. Act, to take up existing obligations. The matter was taken under consideration by the corporation.

DUQUESNE LIGHT—To Vote on $25,000,000 Bond Issue—Stockholders will meet July 29 to authorize the issuance of $25,000,000 25-year 6% bonds, to be secured by a mortgage on all the property and franchises of the company of which $15,000,000 will be used as collateral to secure the proposed issue of $12,000,000 three-year 6% notes.

NEW YORK RAILWAYS—Court Decision Favors Bonds—Decision of the Court of Appeals in favor of the company in its case against the Public Service Commission of the first district has important bearing on income bonds of local traction companies. In 1912 the Commission required the company, before paying interest on its income bonds, to expend each month beginning Jan. 1, 1912, for maintenance during the month 20% of its gross operating revenue and, if this amount was not expended within the month to credit the unexpended portion thereof to an account called "Accrued Amortization of Capital." Suit was brought to test the power of the commission. As of June 30, 1917, the depreciation or accrued amortization of capital amounted to $3,127,258 equivalent to 10.20% on the outstanding adjustment income bonds.

OHIO CITIES GAS—Report—For fiscal year ended March 31, 1918, the consolidated surplus income was $10,328,491 after charges. Gross earnings amounted to $39,929,134, while net after expenses and taxes was $14,787,876. Dividend disbursements amounted to $6,902,872 leaving $3,425,618 carried to surplus.

PEOPLES GAS—May Close Down—Relief through increase of rates must come by August 1 or the company will be forced to apply to Federal Courts for relief, was the statement made by Samuel Insull, chairman of the board, at a hearing before the State Public Utilities Commission on petition of the company for permission to increase its gas rates 30%. He quoted figures showing a decrease in earnings due to the advance in cost of materials and labor, and said the cash working fund had

been reduced from $3,000,000 to approximately $600,000 by the middle of April this year when $1,000,000 had to be borrowed from the Chicago banks with which to pay its taxes.

PITTSBURGH RAILWAYS — Fare Schedule—Effective June 20, receiver for the company issued a new list of fares. A five-cent zone has been established covering a ride of two miles from the center of the city. The car line has been divided into six groups, and in the majority of cases the fare is 7 cents. The six-cent fare has been abolished in Pittsburgh, but not in municipalities surrounding the city. Transfers for a ride beyond the five-cent limit will cost two cents. Under the ruling of the Public Service Commission, the company must give thirty days' notice before fares can be advanced. Conductors and motormen were given an increase in wages recently.

QUEENSBOROUGH GAS & ELECTRIC—Seeks Increased Rates—Tariff sheets announcing proposed advances in maximum rates to be effective June 1, next increasing the rate for electricity from 12c to 15c. per kilowatt hour and for gas from $1.15 to $1.40 per thousand cubic feet have been filed with the Public Service Commission. It is expected that the commission will begin mandamus or injunction proceedings to prevent the raising of rates. The power of the commissions as to fixing the rates for gas and electricity is inadequate and a bill to increase their powers failed in the last legislation. It is held that, inasmuch as the commission for the first district in 1911 made an order fixing such maximum rates which the company accepted, that it is now obligated to obey such order unless it should be modified.

TOLEDO RAILWAYS & LIGHT—Fares Increased—On and after midnight May 9, the following rates of fare were instituted. Cash fare, 5 cents; children under 8, 1 cent, and children in arms free. Transfers will be given out for 1 cent. Rates previously were six tickets for 25 cents and free transfers. Carmen last week voted not to strike and to accept a wage increase of 6 cents per hour instead of the 10 cents originally demanded.

WESTERN UNION TELEGRAPH—Wins Ticker Suit—Western Union is not to be compelled to furnish a client with a ticker service as ordered to do by the Public Service Commission of Massachusetts, the Supreme Court of the United States declared May 20. The court overruled the opinion of the Supreme Court of Massachusetts, which had ordered service to be furnished to C. H. Foster, et al. in Boston.

Mr. Billings and the Turk

C. K. G. Billings, capitalist, formerly of Chicago, came very nearly lending $5,000,000 to Turkey in 1914, which in the opinion of ex-Ambassador Morgenthau, as expressed in the *World's Work*, would have helped save it from the clutches of Germany. Just before the war the Turkish treasury found itself depleted. The men in control were not anxious to borrow from any European nations, most of whom were suspected of ambitions not acceptable to Turkey. In December, 1913, Mr. Morgenthau was sounded by Turkish officials on an American loan. He was told that if he could get $5,000,000 that would satisfy them. At Mr. Morgenthau's suggestion, Mr. Billings came to Constantinople to discuss a small short-time collateral loan. Wangenheim, the German ambassador, displayed an almost hysterical interest in Mr. Billings' visit. The latter indicated a willingness to advance Turkey the money required. A dinner was arranged in his honor by Turkish officials. But just before it took place Talaat informed Mr. Morgenthau and Mr. Billings that French bankers had accepted their terms that very day. He was exceedingly grateful to Mr. Billings. Mr. Morgenthau adds: "I am convinced that Talaat did not regard this Billings episode as closed. Even after Turkey had broken with France and England, and was depending on Germany for money, his mind still reverted to Mr. Billings' visit; perhaps he was thinking of our country as a financial haven of rest after he had carried out his plan of expelling the Germans."

Bargain Indicator of Public Utilities

NOTE.—The minus sign (—) before figures below indicates a DEFICIT for the year equal to the per cent. on stock given. Additions and betterments are included in earnings given, wherever distinguishable from ordinary expenses of maintenance, since earnings invested in improvements of the property increase the equity of the stockholders and therefore render the stock more valuable. The value of a stock cannot be judged by its position in the table ONLY. Earnings for successive years as given should be carefully examined, with a view to stability and growth as well as amount. A poor stock may sometimes stand up well in this table because its price is low compared with latest available earnings.

	Present Div. Rate	Dividend Yield on Recent Price	Dollars Earned Per Share 1912	1913	1914	1915	1916	1917	Recent Price	Earnings Last Fisc. Year on Recent Price	INTENDING PURCHASERS should read all notes carefully and consult "Investment Digest." We gladly answer all inquiries of yearly subscribers.
Northern States Power, pfd.	7	15.56%	.....	3.03	7.32	12.91	16.88	14.99*	45	33.31%	Large gross.
Am. Pub. Util., com.	0	0.00	.....	7.41	4.81	3.83	5.35	7.18	25	28.72	Conservation helps ultimate dividend prospects.
Cities Service, com.	§6	2.79	9.29	10.71	11.28	15.27	36.74	60.73	215	28.25	Maintaining record earnings.
United Light & Ry., com.	4	12.50	.....	4.30	3.48	2.33	4.41	8.70	32	27.19	Dividend uncertain though earnings increase.
Comm. Pr. Ry. & Lt., com.	0	0.00	6.74	7.44	8.28	7.42	8.79	5.77	23	25.09	Company nursing resources.
Rep. Ry. & Lt., com.	4	17.02	.....	.....	1.95	2.97	3.55	5.88*	23½	25.02	Increased rates help out.
Ohio Cities Gas	5	13.51	.....	.....	.....	1.92	2.30	8.70	37	23.51	Oil earnings may offset heavy capitalization.
So. Cal. Edison, com.	7	8.54	5.24	5.80	6.46	7.02	7.96	18.80*	82	22.93	Extensive power improvements.
Am. W. W. & El., 1st pfd.	7	11.86	.....	.....	.....	9.57	10.18	12.96	59**	21.96	Good management and West Penn. helps.
Phila. Co., com.	3	10.71	6.50	5.32	4.72	4.20	4.95	6.04	28	21.57	Regular dividend, but needs money.
Pacific Gas & El., com.	0	0.00	—1.17	2.82	7.79	9.91	9.10	6.83*	34	20.04	High oil prices hurt.
Columbia Gas & Electric	4	12.35	.....	0.25	0.59	0.60	2.31	5.87*	32⅜	18.13	Gasoline helps.
Detroit United Railway	8	9.41	11.60	12.24	10.41	9.69	16.65	14.50*	85	17.06	Gov't price regulation should benefit.
Brooklyn Rapid Transit	0	0.00	8.28	9.17	7.14	7.40	7.54	6.97	41	17.00	Note obligation not settled.
Am. Power & Light, com.	4	9.30	.....	6.01	4.83	4.21	6.50	6.60*	43	15.35	Earnings hold steady.
Western Union Telegraph	7	7.78	4.01	3.24	5.38	10.19	12.42	12.79	90	14.21	War taxes heavy.
Twin City R. T., com.	4	9.41	7.45	7.65	8.05	6.83	9.22	6.04	42½	14.21	Minneapolis franchise pending.
Standard Gas & El., pfd.	3	11.11	7.39	3.19	2.63	3.15	3.60	3.70	27	13.70	Developing water-power resources.
Consol. Gas, Balt., com.	8	8.12	7.28	10.11	7.00	7.55	8.39	10.56	98½	10.72	Earnings being maintained.
Am. Lt. & Trac., com.	†10	5.10	26.05	25.08	22.32	24.62	25.66	20.75	196	10.59	Conservative policies and lower costs helpful.
Montana Power, com.	5	7.46	.....	3.13	2.43	3.72	4.87	7.07	67	10.56	Expanding business.
Am. Tel. & Tel.	8	8.08	9.58	9.55	9.38	9.09	9.61	9.65	99	9.75	Dividends uncertain. Need cash.
Laclede Gas Lt., com.	7	7.95	8.40	8.16	8.20	9.24	11.21	8.58	88	9.75	Dividends in no immediate danger.
Detroit Edison	8	7.62	7.83	8.34	10.52	13.68	13.72	10.26	105	9.58	Peace will help.
Kings Co. El. L. & P.	8	8.65	9.52	9.29	10.86	11.67	11.88	8.66	92½	9.32	Increased expenses.
Cons. Gas of N. Y.	7	8.04	8.91	8.50	8.40	8.82	8.94	7.75	87⅛	8.89	High operating costs.
Mackay Co., com.	6	8.00	5.09	5.25	5.28	5.36	6.35	5.87	75	7.83	Wireless telegraphy competition.
Pac. Tel. & Tel., com.	0	0.00	0.63	1.87	1.89	0.56	1.25	1.78	24	7.42	Expanding operations.
Third Av. Ry., com.	0	0.00	.....	5.53	3.64	4.03	5.77	0.00	19	0.00	Defaulted bonds gross increased.
NO 1917 ESTIMATES AVAILABLE.											
North Amer. Co.	5	11.11	7.15	7.01	6.41	6.06	7.26	.....	45	.....	Interested Un. Rys. of St. Louis.
Peoples Gas Lt. & Coke	0	0.00	7.54	8.25	8.55	8.39	5.39	.....	43	.....	Improvement expenditures large.
Pub. Ser. Corp., N. J.	8	7.77	8.21	8.99	6.50	7.89	10.18	.....	103	.....	High costs reduce net.

* Estimated.
§ Also pays regular stock dividend of 9%.

†Also pays 2½% in common stock quarterly.
**Ex-dividend.

MINING AND OIL

Kennecott's Buried Earnings

What an Analysis of Its Last Report Reveals—Significance of Braden Development—The Mother Lode Acquisition—The Future Kennecott

By H. A. BOYLAN

THE simple character of the copper industry—its processes, product and terms of settlement—reflects itself in the annual reports of the larger companies which have ordinarily presented a complete and readily understandable statement of the year's operations. But Kennecott's recently published income account for 1917 may almost be said to conceal more than it discloses. Through the published summaries to the effect that Kennecott earned only $4.14 per share in 1917, the investor may be misled into believing that last year was a relatively unsuccessful one. Such is by no means the case, as we shall attempt to prove by a more detailed analysis of the annual report.

The accepted figure of $11,545,000, or $4.14 per share, is much below the real earnings—for three reasons:

I. It includes an arbitrary deduction of $6,066,000 for depletion—equal to $2.18 per share.

II. It fails to consider the undistributed profits of Kennecott's subsidiaries—worth another $3.63 per share.

III. It excludes the excess cash value of the unsold copper over the carrying price—representing $2.43 more per share.

A Heavy Charge for Depletion

I. I term the depletion charge "arbitrary" because it has no direct reference to the reduction in the present value of the property through last year's operations. This debit is based upon the amount of ore developed on March 1, 1913, and its value as of that date. Hence practically all the large copper companies omit this item from their reports altogether, as having no bearing on the year's financial results. The true depletion reserve is set up by the stockholder out of dividends; it is reflected in the market price of the stock; and it varies each year as the estimated life of the mine is revised. Both for comparative purposes therefore and for logical accounting reasons,

TABLE I—KENNECOTT'S ACTUAL EARNINGS IN 1917

		Per Share
Net Earnings as Reported.	$17,965,000	$6.45
Cop. Riv. & N. West. R. R.	1,210,000	.43
Equity in Undistributed Earn. of Subsidiaries:		
Alaska Steam. Co. (53%)	203,000	.07
Utah Copper Co. (38%). (Includes Bingham & Garfield Ry.)	2,030,000	.73
Nevada Cop. Co. (19%). (Inc. Nev. North. R. R.)	324,000	.12
Braden Cop. Co. (99%).	6,047,000	2.17
	$27,779,000	$9.97

Kennecott's ore depletion reserve should be ignored in computing the 1917 earnings—just as it was omitted by the company itself from its 1916 report.

II. The second point applies to every holding company which includes in its income account only such portion of its subsidiaries' earnings as have been paid to it in dividends. Kennecott is unique among the leading coppers in that it is interested in a larger output as a holding company than as a direct producer. In Table I we have completed the 1917 income account by adding its equity in the undistributed profits of its various subsidiaries. Incidentally there is included the $1,210,000 net earnings of the Alaskan Railroad, which, although paid in cash to Kennecott, are not shown in the statement, since the entire amount was applied to the reduction of the book value of the investment. This road, capitalized at $27,800,000 and said to have actually cost over $20,000,000, is now carried in Kennecott's balance sheet at $8,654,600.

The aim of the management is obviously to write this property down to as low a figure as possible before the Alaskan mines are exhausted, since the earning power of the railroad would then be drastically reduced. But this is precisely the same proposition as the ore depletion charge, and it is evident that the railroad's earnings which have actually accrued and been paid to Kennecott rightfully belong in its income account.

III. The question of the market value of the inventories is also of prime importance. Last year Kennecott produced 78,-200,000 lbs. net in Alaska, but its income account is based upon the sales of only 56,-900,000 lbs. The remaining 21,300,000 lbs., together with 252,000 oz. of silver are taken into the inventory at cost price, totalling only $1,619,000. At $1 for silver, at 23½c for copper, these metal stocks have a market value of over $5,250,000. Now it is perfectly clear that had it not been for the transportation tie-up, the copper companies could have sold their entire 1917 output at the market price before the end of the year—as they had done in 1916; and in view of the tremendous war demand there is no question of their ability to dispose of their accumulated and current production. On this account one would obtain a more accurate view of the 1917 operations by considering the unsold metal on the basis of its market value (at which no doubt it has already been sold). Of course the benefit of these sales will be shown in the 1918 report, but they have their origin in the work of 1917. In Table II is shown the effect of a market valuation of the unsold copper in which Kennecott was interested on December 31 last.

When all these little adjustments are made it gradually appears that Kennecott did not fare so badly in 1917 after all, but managed to gather equities of various sorts exceeding $12 per share. If 1917 production and costs were maintained in the current year the investor would have little reason to complain, for, as we show in Table III, the company should then earn above $11 per share on 23½c copper.

TABLE II—EQUITY IN THE MARKET VALUE OF INVENTORIES AS OF DECEMBER 31, 1917.

	Pounds Carried	Inventory Value	Market Value	Excess of Market Value	Kennecott's Proportion
Braden	22,000,000	$3,275,000	$5,170,000	$1,895,000	$1,876,000
Utah	26,200,000	3,537,000	6,157,000	2,620,000	996,000
Nevada	14,000,000	1,890,000	3,290,000	1,400,000	266,000
Kennecott	21,300,000 (Also 252,000 oz. silver)	1,691,000	5,255,000	3,636,000	3,636,000
Total	83,500,000	$10,321,000	$19,872,000	$9,551,000	$6,774,000

Per Share of Kennecott, $2.43

TABLE III—KENNECOTT'S PRESENT EARNING POWER ON 23½c. COPPER.

	1917 Production Pounds	1917 Costs	Profit per Pound	Total Profit	Per Share
Braden	63,000,000	16.75c.	6.75c.	$4,252,000	$1.52
Utah (38%)	75,000,000	10.50c.	13.00c.	9,750,000	3.50
Nevada (19%)	16,000,000	10.75c.	12.75c.	2,040,000	.73
Alaska Mines	78,000,000	6.25c.	17.25c.	13,550,000	4.87
" R. R. & S. S.	....	....	....(1917)	1,604,000	.58
Total	252,000,000	10.88c.	12.62c.	$31,196,000	$11.20

The Supply of Alaskan Ores

But the uncertain and disquieting feature of the Kennecott situation has always been the possible exhaustion of those great Alaskan mines, which for richness of ore and resulting cheapness of production have probably never been equalled on the globe. The management assures us that the new tonnage

developed in 1917 equalled that withdrawn, and also that diamond drill exploring proceeded with "gratifying results"—but the trend of the production figures is rather ominous. There was a decline of more than 30,000,000 lbs. in 1917, of which only a part could have been due to the midsummer strike. The output for the first four months of this year totals only 23,200,000 lbs. against 28,400,000 lbs. in the same period of 1917 (See graph). Those who really know what is going on at Kennecott have never been particularly communicative, but the whole financial history of the company is a clear intimation that the days of the Alaskan mines are numbered.

When the Bonanza and the Jumbo mines are dead, will Kennecott's earning power vanish with them? Those who think so have forgotten about Braden. In the Teniente and Fortuna ore bodies at Sewell, Chile, Kennecott has another Bonanza—less rich in ore quality, it is true, but of incomparably greater size. Ranking after the Chile Copper properties—which the Guggenheims also control—and the Utah mine, in which Kennecott has a large interest, Braden contains perhaps the third largest ore body in the world. It includes 149,000,000 tons of "fully developed" ore, averaging 2.42 per cent copper and 90,000,000 tons of "partially developed" material, averaging 1.88 per cent copper. The grade of this ore is easily the best of the larger porphyries.

The permanent future of Kennecott is thus bound up with the development of the Braden mines. The splendid tonnage assured made the enlargement of the mine's capacity inevitable, and hence three years ago the management authorized the doubling of the present maximum output of 5,000 tons per day. As may be imagined, the shortage of material, shipping space and labor has delayed this construction and increased its ultimate cost far above the original estimate of $7,500,000. Already $5,000,000 has been spent on new equipment, and it is expected that Kennecott will be called upon to furnish additional funds in order to complete the work.

Development of Braden

But when this enlarged plant is in operation, Braden will turn out 125,000,000 lbs. of copper annually and will dispute with Inspiration the third place among American owned producers. The report of Pope Yeatman, recommending the enlargement of Braden's capacity, estimated the ultimate cost of production at around 6.50c per lb., before interest and taxes. Since the costs of last year's output exceed 16c it might seem that this forecast is destined to prove a good deal too optimistic. But further examination shows that the chief element in the 1917 costs was the delivery and selling expense—the former reaching nearly six times the prewar figure—and that the operating expenses *at the mine* were actually less than in the previous year. The cost of production f. o. b. Sewell, averaged 7.65c per lb. in 1917, against 8.03c in 1916 and 8.16c in the 1915 fiscal year, when Mr. Yeatman's estimate of eventual costs was made. The latter was based upon a mine cost of about 5.25c and a selling and delivery expense of 1.25c. With normal prices for labor and materials, with Chilean exchange back to par (an important item), and with the benefits accruing from larger scale operations, a reduction of 2.40c per lb. from the 1917 mine cost seems quite within the realm of probability. As for the delivery expense,

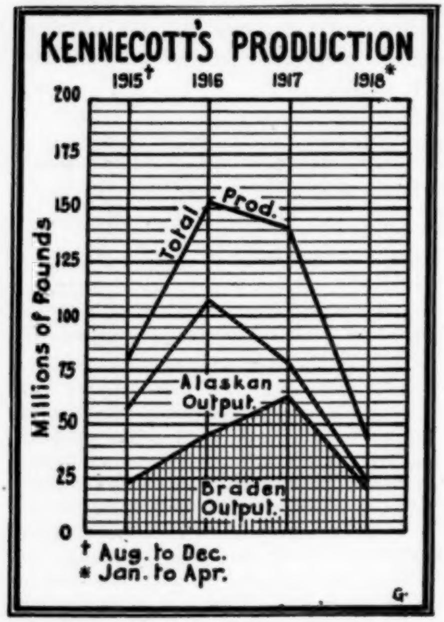
TABLE IV—THE FUTURE KENNECOTT.

Earning Power on 14½c. Copper—*Excluding Alaskan Mines.*

	Production Pounds	Cost.	Profit per lb.	Total Profit	Per Share	Minimum Life of Mine
Braden	125,000,000	(Est.) 7.50c.	7.00c.	$8,750,000	$3.14	67 yrs.
Utah (38%)	75,000,000	(1915) 7.00c.	7.50c.	5,625,000	2.02	35 yrs.
Nevada (19%)	16,000,000	(1915) 7.50c.	7.00c.	1,120,000	.40	17 yrs.
Alaskan S. S. & R. R.	....	.....	Say	500,000	.18	......
Total	216,000,000	7.35c.	7.15c.	$15,995,000	$5.74	......

this will depend upon post-bellum freight rates, which, in view of our shipbuilding program, should ultimately return to some reasonable figure. Hence we might hazard an estimate of 7.50c as the future net cost of Braden's copper laid down in New York.

One hundred and twenty-five million lbs. of 7.50c copper could net a handsome profit on almost any selling price of the metal. But in addition thereto, Kennecott will control 38 per cent of Utah's output, which, together with the Nevada interest, should yield another 90,000,000 lbs. yearly of equally low cost copper. What this output



means to Kennecott on a 14½c copper market is shown in the next table—which eliminates entirely the original Alaskan mines (Table IV).

In this wise Kennecott Copper is gradually freeing itself from dependence upon the disappearing Alaskan properties. They will still be called upon to supply the balance of the purchase price of the Utah stock, now amounting to $8,850,000, and to provide the requisite funds for completing the Braden extensions. By the end of next year the surplus above the present dividend rate should have accomplished both functions, and then the Alaskan mines will resign their position as the mainstay of Kennecott's earning power. If they continue to produce even after this period, or if new acquisitions in this territory—like the recently concluded Mother Lode arrangement—should still bring income from the far North, the stockholders can regard these earnings as a kind of windfall or bonus.

The Mother Lode is important in its potentialities for prolonging Kennecott's Alaskan activities, and turning valuable mining equipment to further profitable account. The Mother Lode property comprises 70 lode and placer claims aggregating 1,400 acres adjoining the famous Bonanza mine, as well as 12 lode claims totalling 240 acres adjoining Kennecott's Jumbo property. Selected shipments from the Mother Lode mines to provide development expenses have averaged as high as 60.6 per cent, 59.1 per cent and 34.9 per cent in copper content. In addition, 114,323 tons of ore averaging from 8 to 21 per cent, and 240,000 tons of probable ore estimated to contain 2.3 per cent of recoverable copper, have been developed to date. While Mother Lode was unable to make large profits through lack of funds and transportation facilities, its mines should become a different commercial proposition under Kennecott control.

The Kennecott of the Future

For the Kennecott of the future will be strictly a porphyry or large-tonnage enterprise. Its Braden mine will have a minimum life of 67 years at the enlarged production, and its Utah Copper interests guarantees it an additional income for at least 35 years. Only an unlooked-for hitch in the Braden expansion program can prevent the establishment of a *continued* earning power for Kennecott.

Because of this fact, the investor should not be discouraged by the many untoward features of Kennecott's career—its large capitalization, its unusually rapid expansion in various fields, its recent cut in dividends, and most of all its traditionally disappointing market action. The star of Kennecott in the North may be near its setting, but a new and greater luminary is rising in the South—the Braden Mines at Sewell, Chile.

Mining Stocks Which Are Not Cheap

Goldfield Consolidated—Jumbo Extension—Mines That Exist Chiefly on Golden Memories

By VICTOR DE VILLIERS

"THINKING backwards" was the mental conclusion of the writer who, on a hot summer afternoon in 1916, tried vainly to persuade an elderly investor in Goldfield Consolidated to sell his 5,000 shares "while the going was good" at around $1. The old gentleman's argument was that "he he owned 'em outright" for a number of years, they had declined from ten dollars a share and should rally to at least five dollars. Finally he had faith in the property. Veneration for past records, living in the past, outright ownership and blind faith summarizes the principal reasons why Goldfield Consolidated and Jumbo Extension—a duo of "has beens"—sell at present prices.

Goldfield Con.—Former Bonanza

The report of Secretary Howe for the year ending December 31, 1917, reads strangely like an obituary notice when we learn that the net realization for the year was $128,500, equivalent to net earnings of .003 cents a share. In other words, 100 shares selling for about $25 (nominal value $250) showed an earning power of 3 cents. Like Antony before the bier of Caesar, the funeral oration of secretary Howe brings out the fact that if his subject is dead now, it has been very much alive in the days gone by. The report very properly goes on record to the effect that gross production to date has been 3,094,353 tons of a gross value of $72,393,065. Of this huge total, $11,200,000 was contributed by lessees in the early days and $2,700,000 by the various constituent companies before the incorporation of Goldfield Consolidated in 1906.

In contrast with little or nothing earned during the past three years, the company earned during its productive life, which attained its real stride in 1909, sufficient to pay out 24 consecutive dividends totalling $28,999,831, or $8.15 a share for its 3,559,148 outstanding shares of $10 par value.

The romantic history of Goldfield Consolidated around which centered one of the greatest booms in America mining history would alone fill a volume. Its affiliated companies, the Mohawk, Red Top, Jumbo, Laguna, Goldfield and Combination, which provided the initial sensations in the Goldfield camp and the basis for the present company, have only been eclipsed by the mines of the Comstock Lode of California. Like the Comstock Lode, Goldfields has been a heavy contributor to our mineral wealth and our string of millionaires, and any reference to its past can only be of historical interest now.

The 1917 Report

Reading round, under, and between the mass of dry facts and figures in the annual report, one cannot get away from the impression that the company is suffering from cash exhaustion. Although a book value of 65 cents is estimated for the shares, by valuing the mine properties at around $30,000,000, the report deals minutely with the scrap value of the equipment after mill operations have ceased. This valuation, $2,331,000, will take six years to realize.

It seems somewhat optimistic to value an enterprise at $30,000,000 which possesses almost no earning power. The shrinkage in the cash balance from $1,021,086 to $170,571 from January to December, 1917, expended in such items as "stocks and bonds," "mines investment" and "accounts receivable" is doubtless in good faith, but very disturbing from our point of view. The new item of "mines investment $534,185" may be productive of good results ultimately, but it is questionable whether a poor earner *is justified in acquiring new properties with the bulk of its capital.*

This is not the only disturbing feature. We note that compared with 1916 net realization shows a decrease of $256,099, tonnage declined 88,130 tons, total cost of mining increased 67 cents a ton, the percentage of profit from even higher grade ore is almost cut in half, while mining and milling costs have increased.

An Earlier Comparison

Looking backward only a few years earnings per share have been on the toboggan since the beginning of 1913. The balance sheet for each year has been a more dismal exhibit than its predecessor. The figures in the table only tell part of the tale.

GOLDFIELD CONSOLIDATED EARNINGS AND DIVIDENDS.

	Earned Per Share	Paid Per Share
14 months ended Dec. 31, 1912	1.33	1.60
Year ended Dec. 31, 1913....	0.42	0.70
Year ended Dec. 31, 1914....	0.29	0.30
Year ended Dec. 31, 1915....	0.23	0.45
Year ended Dec. 31, 1915....	*0.006	Nil
Year ended Dec. 31, 1917....	0.003	Nil

*Allowing nothing for depreciation charges estimated at $428,620.

It will be observed that payments have always exceeded earnings duing these years, clearly proving that surplus was being liquidated. The figures for 1916 and 1917 show a similar consistent decline all along the line. Against 31,000 tons of ore mined in January, 1916, with a gross extraction of $209,000 realizing $59,061, the figures have shrunk steadily through the weary months of 1916 and 1917 to a low of 16,000 tons yielding a trifle over $10,000 in net result.

The shares have also been on the down grade, reflecting very accurately the sophisticated opinion of the outlook. From a high around 10 in 1910 the shares have shrunk from the dollar into the penny division around 1914. A glance over the prices from that year to date proves fairly conclusively to the student of market action that the shares have been under steady liquidation, and are still being sold gingerly. The feeble rallies have been incidental to buoyant markets, with the familiar process of churning, artificial activity, and further distribution.

Exploration and Oil Flotation

In addition to its 26 patented lode claims at Goldfield, covering nearly 400 acres, the company owns, either outright or by stock control, a number of subsidiaries.

Its principal operating subsidiary, the Aurora Consolidated Mines Company, owning claims at Aurora, Nevada, around which the bright hopes of stockholders have been woven, has proven an expensive purchase for Goldfield Consolidated.

Acquired in 1914 for $763,000 from Jesse Knight and associates, the Aurora showed a net profit of $39,781 in 1916 and a loss of $37,067 in 1917. Mr. Walter Harvey Weed, however, believes that the property contains "promising ground yet unexplored."

The company has experimented with the oil flotation process for treating its low grade ores, and much has been said about its possibilities, but the outcome is dubious, to say the least. The chance of discovering new ore bodies and the possibilities of finding copper beneath the main gold-bearing ore veins are not entirely absent.

Jumbo Extension—A Hopeful Neighbor

Jumbo Extension Mining Company owns about 9 patented claims covering approximately 100 acres immediately north of the Goldfield Consolidated holdings. The property is the center from which radiate a great number of producers, near-producers and raw prospects which have placed the mines of Goldfield prominently on the map.

From a high of 2½ in 1915 the shares after from a high of 2½ in 1915 the shares have steadily declined to the vanishing point of around a few cents a share, without many takers, even at the latter figure.

The record of Goldfield Consolidated, the hope that Jumbo might duplicate its success, and alternate fear of loss, have been responsible for some wild price fluctuations. Speculators well remember August, 1914, when the shares were not wanted at 12½ cents a share, and a "strike" occurred two months later. Insiders kept the news to themselves for a while, and some frantic short covering and frenzied buying later drove the price up to $4, mostly at the expense of "professionals" who sold Jumbo "short."

Its Checkered Career

Incorporated in 1904 with an original $1,250,000 in $1 par, share of one class, little happened for about ten years. The property was spasmodically developed until the spring of 1914, when disclosures of

high-grade ore were made on the 920- and 1017-foot levels, and the company not only started regular production immediately, but placed the shares on a dividend basis a few months later.

Production commenced on a basis of around 2,000 tons of ore a month, and the company was able to report 16.420 tons sent to the mill and smelter during the fiscal year which ended June 30, 1915. This production was practically doubled in the ensuing year with a total of 35,541 tons of a gross value of $1,124,487, which yielded a profit of $970,785 to stockholders.

During this time the company was heavily involved in litigation with its neighbor, the reorganized Booth Mining Company, which claimed apex rights involving $900,000 for ore mined from one of the veins of the Goldfield Booth which, very evidently, ran through the Jumbo property. Jumbo resisted the suit, and shut down its mine; and these little matters certainly had a bearing on the gyrations of the shares in the stock market. It was possible to pick up Jumbo Extension shares in the meanwhile for a trifle higher than nothing.

The Sudden Fall .

Commencing dividend payments in July, 1911, at the rate of 10 cents a share, the company successively paid out irregular dividends during 1914, 1915, and the first half of 1916. They had every appearance of regular payments of 5 cents quarterly and 2½ or 5 cents extra, and were generally so heralded at the time.

The "dividend" which stockholders expected around September, 1916, never came, and this must have been a great shock to those who believed Jumbo Extension a very satisfactory high-yield investment. Faith dies hard, and the liquidation that followed was only halted by obstinate holders who could not believe the evidence before them. A total of $685,008 had been paid out, equivalent to 50 cents a share, so that the unfortunate purchasers between 2 and 4 have never had a chance of getting out.

The 1917 production seems to foreshadow the end, so far as the Goldfield claims are concerned. During the year less than 10,000 tons were sent to the smelter realizing $193,521, less operating charges, which left a balance of only $20,976. The value of the ore has also declined from $56.87 in 1915 to $29.48 recently.

The company has gone in for some exploration work since 1916 to acquire other properties to replace its depleted Goldfield holdings. Out of one hundred properties submitted, its Copper Mountain property of 350 acres in Mineral County, Nevada, has been selected. On this property around $25,000 has been spent by the Jumbo Extension, and although it is a prospect, its chance is regarded as fair.

In the fall of last year, a new company was organized to take care of the Copper Mountain enterprise, called the Jumbo Copper Mountain Mining Company. Its shares totalling 2,500,000 of a par value of $1 were distributed among Jumbo Extension stockholders, share for share, free of charge. The new shares are assessable so that the gift is not entirely free of qualification. An "Irish" dividend of two cents a share was levied recently, and stockholders should not be surprised to receive similar calls in the new future.

The Outlook

Both Goldfield Consolidated and Jumbo Extension have apparently seen their best days, and present mining operations are either in the nature of a clean-up of tailings and dumps, or experiments with new properties.

The cash position in both instances is weak, and it is necessarily doubtful whether, in spite of aggressive managements, new exploration and development programs can be seen through to a satisfactory finish for stockholders.

The shares in both cases having reached the vanishing point around a few pennies each, holders might take a further chance that favorable news will give them some sort of opportunity of liquidating to slightly better advantage. The hope seems to be slender, however.

No purchase of these can be recommended since there are more meritorious "penny stocks" in an advanced state of development available, with better long-pull prospects. Boston & Montana or Mother Lode of Alaska (old stock) give much greater justification for optimism.

Mining Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

ALASKA GOLD—Production—During the first quarter of 1918 the mines produced about 5,220 tons per working day, a decrease of 680 tons per day as compared with the fourth quarter of 1917. A total of 462,294 tons of ore was broken in the mine and 470,451 tons of ore trammed to the ore-ways, leaving an estimated total of 2,002,385 tons of broken ore remaining in the stopes, according to the re-surveys of broken ore made as of Dec. 31, 1917. The deficit for the quarter was $8,018 as compared with a surplus of $37,684 in the last quarter of 1917.

AMERICAN SMELTING—Application to inc. Gold Shipments in Mexico Denied—Federal Reserve Board has denied the application of the company to increase its gold shipments to Mexico. The company has been shipping gold bars at a rate above $500,000 monthly in obedience to a decree of the Mexican government that mining concerns shipping gold and silver out of Mexico in ore and base bullion must return the full value of the gold and 25% of the value of the silver in the form of refined gold. Under a recent ruling the amount of gold return demanded for silver taken out of Mexico was increased to 50%. Compliance with this order would increase the gold exports to Mexico of the company to above $1,000,000

ANACONDA—High Ore Mine Shut Down—That Anaconda's High Ore mine suspended operations for three months during which shaft will be concreted the entire depth of 3,400 feet and will cost about $75,000. This shutdown will not interfere seriously with production as men will be sent to other mines increasing output at those points. High Ores daily production averaged 1,950 tons. It is estimated that Anaconda will this month produce approximately 28,000,000 pounds copper, 900,000 ounces of silver and 5,000,000 pounds of zinc. Daily tonnage of all ores, including North Butte, is now 17,500. Labor situation at present is satisfactory.

CANADA COPPER—New Mill—Last year money was provided for the construction of the company's 3,000-ton mill at its Copper Mountain property, which, when completed, should enable the corporation to assume a place among the big American copper producers. When completed the new mill should be able to produce 27,400,000 pounds of copper. Cost of producing should be in the neighborhood of 9½c a pound on the basis of 3,000 tons a day, which on 23½c copper, leaves a profit of 14c a pound, or $3,836,000 annually

CHINO—Production—Gross production of copper content in the concentrates from milling operations for the first quarter was 20,721,217 pounds compared with 20,266,715 pounds in the preceding quarter. Total amount of ore treated was 1,011,500 tons, an average of 11,238 per day, or 1,086 tons per day more than for the fourth quarter of 1917. Average copper content of the ore treated was 1.6243%, compared to 1.6388% copper for the fourth quarter of 1917. Cost per pound of net copper produced, after allowing for smelter deductions and crediting miscellaneous income, was 15.28 cents, compared to 13.65 cents for the fourth quarter of 1917.

CONSOLIDATED COPPERMINES — Operations—Estimates of production last month place the total gross value around $399,500, with a recovery of about 1,700,000 pounds of copper. The mill is treating about 1,000 tons daily. In addition, stopes between the 1,000 and 1,200-foot levels have been yielding about 150 tons daily.

CRESSON GOLD—March Profits—Were $81,552.58 compared with $51,216 in February and $48,702.16 in January. The company, as of April 1, 1918, reported "net profits on fully developed ore reserves" of $3,148,276 and cash in bank $1,023,799.68. Combined, the two items are equivalent to $3.42 a share, not considering ore in transit, bills receivable or prospective ore reserves.

ELKHORN COAL—Initial Dividend on Common—Initial dividend of $1 a share has been declared on the common stock, and the regular semi-annual dividend of $1.50 a share on the preferred, both payable June 10 to holders of record June 1.

FEDERAL MINING & SMELTING——April Earnings Show Decrease—This company reports a net profit from operations in April, after depreciation of $32,398. This compares with net profits of $64,840 in March and a loss of $33,393 in February. The repairs at the main shaft of the Morning Mine the company's principal source of production, made necessary by a cave-in about the middle of February, have been completed, and the shaft is again in operation. These repairs amounted to a practical rebuilding of the shaft. The company, however, is experiencing considerable difficulty in securing a sufficient amount of labor, the men in this district, as well as in the surrounding territory, being attracted to the Northwest, especially the Puget Sound section where the shipbuilding industry is showing wonderful activity and wages are unusually high. A large number of men also found employment in agricultural lines where a shortage of labor is also reported to exist.

MINERALS SEPARATION—To Appeal Decision in Favor of Butte & Superior—The Appeal will be taken from the decision of the Circuit Court of Appeals on the ground that the difference of opinion as to what the Supreme Court meant in the Hyde case. The company will promptly apply for a writ of certiorari, judgment being suspended meanwhile. In case Minerals Separation obtains

the writ it is expected that the Supreme Court will hear the argument some time next October.

MOTHER LODE COALITION MINES—Kennecott Interests Acquire Mothe Lode—Stephen Birch, president of Kennecott Copper Corporation acting on behalf of a new company to be called Mother Lode Coalition Mines ratified a proposal to take over and operate Mother Lode Copper Mines Co. of Alaska. Trustees of the last named company ratified the proposal and 80% of the stockholders have approved the plan. Mother Lode Coalition Mines Co., which will be incorporated in Delaware by interests affiliated with Kennecott Copper, will have 2,500,000 shares of no par value. Kennecott interests will retain 1,275,000 shares, or 51% of the total capitalization, and elect four of the seven directors. Mother Lode Copper Mines of Alaska stockholders will receive 1,225,000 shares, or 49% and elect three directors. Stockholders can exchange their shares for shares of Mother Lode Coalition Mines. The new company will pay off Mother Lode's $500,000 bonds, provide $1,000,000 working capital, and develop the property on a big scale.

NEVADA CONSOLIDATED—Quarterly Report—Showed a deficit after dividends of $1,689,387, compared with a surplus of $1,022,459 in the corresponding quarter last year and $1,556,225 two years ago. Surplus income was only $310,070, while dividend payments were $1,999,457. The shrinkage of 90% in income was due to a large increase in the cost of production. Production of copper amounted to 17,435,164 pounds, compared with 22,153,158 for the preceding quarter. Cost of copper produced, including depreciation and all charges, and after crediting miscellaneous earnings, was 15.64c a pound, compared with 12.73c for the previous quarter.

TENNESSEE COPPER & CHEMICAL—Making New Acid Production Record—Production of sulphuric acid during the first three months of this year was 75,000 tons. This was at the rate of 300,000 tons per annum as compared with the 1917 output of 263,000 tons. There was a marked improvement during March. The incentive for producing over 175,000 tons of acid per annum may be found in the new price of $9 to be paid for such excess as may be secured over that amount and extending up to 225,000 tons. Anything over 225,000 tons a year will be paid for at the rate of $10 a ton. The higher prices should therefore become operative during the current year. Annual report shows that the 1917 earnings of the company's subsidiary were $911,150, compared with $387,657 in 1916. The parent corporation reported earnings of $68,978.

TONOPAH BELMONT—New Properties—Are scheduled to go on a producing basis this month, the Eagle-Shawmut mine in California, and Belmont-Wagner mine in Colorado. Net profits for April were $62,470, against $63,202 in March and $83,250 in April, 1917. The net profits for the Surf Inlet property in addition were $31,460, against $37,477 in March.

UNITED STATES SMELTING—Coal Profits—Increase in Silver Production—From January to April inclusive, which is far from the best production period of the year, output of coal has averaged over 100,000 tons a month. For the rest of the year shipments should be on a larger scale so that 1918 coal production bids fair to be 1,500,000 tons as against 908,000 tons last year. In its Utah coal mines and its railroad and the new equipment which it forehandedly purchased a year ago, there is an investment of probably some $15,000,000. The company ought to earn enough to more than cover the dividend on the $24,000,000 preferred. Silver is helping out this year.

UNITED VERDE EXTENSION—New Concrete Shaft—Has been completed down to the 1,500-foot mark and further progress is being retarded on account of the slowness in excavating down to the 1,700 which is the intended depth of the shaft. It will soon be possible to use this shaft for hoisting purposes. Ore is being shipped to the new smelter at Verde in order that a good supply will be on hand when the furnaces are blown in along about the 1st of July.

UNITED ZINC SMELTING—$1,000,000 Bond Issue Authorized—Issue will be dated May 1, 1918 and will mature $200,000 Aug. 1, 1919; $250,000 Aug. 1, 1920; $250,000 Aug. 1, 1921, and $300,000 Aug. 1, 1922. The bonds will be in coupon form and interest will be paid semi-annually. This financing has been undertaken because of the cost of the construction of the new plant at Moundsville, W. Va., and the installation of additional units to meet the requirements of the government for sulphuric acid which will show a substantial profit. It is intended to issue about $550,000 to finance present obligations and $325,000 will be divided between 1921 and 1922. The balance will be held for future requirements and will be subject to sale at the option of the directors.

UTAH COPPER—Plants Treating Normal Tonnage—Two plants are treating the normal tonnage for this time of the year. Garfield smelter is treating from 3,500 to 4,000 tons of ore daily. The daily ore treatment at the Murray plant amounts to between 1,000 and 1,500 tons. These smelters, together with United States Smelting plant at Midvale and International Smelting & Refining plant at Tooele, are receiving ores from at least a dozen Western States, which produce approximately $800,000,000 of precious metal ores annually.

Oil Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

EMPIRE REFINING—Tenders Asked— Guaranty Trust Co. of New York as trustee, will receive up to 3 P. M. on June 17, 1918, sealed proposals for the sale to it of sufficient first and collateral trust sinking fund gold bonds, dated Feb. 1, 1917. to exhaust the sum of $500,000 at a price not exceeding 104 exclusive of accrued interest.

ELK BASIN—1917 Report—Operating profits more than double the annual dividend requirements of 10% on its capital stock are indicated by the balance sheet of December 31, 1917. The Elk Basin field of Wyoming is reported to have a daily production of about 6,000 barrels. The company's lease is one of the most prolific in the field. Its total acreage in the field is 840, although development operations thus far have been confined to the Elk No. 2 lease.

GALENA-SIGNAL—To Acquire Properties in Texas—As result of stockholders' approval of increase in common stock from $12,000,000 to $20,000,000 and creation of new class of preferred stock for $8,000,000, the company will acquire oil properties in Texas owned by J. S. Cullinan. Directors plan to issue $2,000,000 new preferred stock and $4,000,000 new common in part payment for capital stock of a Texas corporation owning producing properties, tank farm, tankage pipe line and other facilities, and also in part payment for one-half capital stock of Petroleum Refining Co. Galena owns the other half of Petroleum Refining Co.'s stock. Texas properties, in addition to Petroleum Refining Co., to be acquired by Galena, are Republic Production Co. and American Petroleum Co., both subsidiaries of American Republic Corporation.

LOUISIANA OIL REFINING—New Well—No. 8 on the Crye Lease was brought in Saturday, making 1,200 to 1,400 barrels. This is the fourth well which has been brought in on this lease. On account of this increased production 100 additional tank cars have been purchased. Deliveries have already commenced.

METROPOLITAN PETROLEUM—Assessment on Shares—Stockholders are to be asked in a few days to pay an assessment on their shares, to raise funds for future operations. Holders recently deposited with the Wilson Stockholders' Protecting Committee, amounting to 60,000 shares have already paid an assessment, and negotiations have been entered into with Richmond Levering, founder of the corporation and the interests connected with the Island Oil and Transport Co., to arbitrate certain differences between the shareowners of the two concerns. The Wilson committee and the Matchett committee, both of which sought proxies for the recent meeting of Metropolitan stockholders, have joined forces. They aim to come to an agreement with the Island Company in respect to equities in the great gusher brought in a year ago on land in Mexico, which originally belonged to the Metropolitan but was sold to the Island Company. In addition to the funds needed to carry on the task of rehabilitation, approximately $400,000 is required to pay up lease and option fees in arrears on the Mexican properties.

OKLAHOMA PRODUCING & REFINING—New Leases—Has leased a substantial acreage in Texas. The services as chief geologist of E. C. Woodruff, formerly chief geologist of the Texas Company, and W. E. Lockport, formerly of the same company, have joined the Oklahoma organization. Against a 1916 net operating income of $348,959 the company reported 1917 net operating profits of $3,246,491.

ROYAL DUTCH PETROLEUM CO.—Production—Production in all fields for 1917 was 35,806,379 barrels, an increase of approximately 400,000 barrels, compared with 1916 when about 35,400,000 barrels were produced. Output in 1915 amounted to 27,400,000 barrels. Higher prices were received for all grades.

SAPULPA REFINING—Refining capacity in 1917 and its holdings of oil producing properties were increased. It also embarked in the casing-head gasoline business. It acquired 7,500 acres of oil lands in Oklahoma and Kansas with a daily production of about 400 barrels. Production of crude oil now is approximately 1,000 barrels a day.

SINCLAIR OIL & REFINING—Quarterly Report—For the quarter ended March 31 shows surplus available for dividends in the six months ended Dec. 31, 1917, totaled $3,097,008. The $561,268 surplus income returned in the March quarter brought total profits applicable to dividends for the first nine months of the fiscal year up to $3,658,276, or $3.65 a share. The pipe line is operating at capacity along with the new refinery on the lake front. Sinclair should close a current fiscal year with a surplus income of at least $5,000,000, or $5 a share. This would compare with $7.70 a share earned in the 1916-17 fiscal year.

STANDARD OIL OF NEW YORK—Refined Oil Advanced—Price of refined oil for export in cases has been advanced only 25 points to 17c a gallon. Naphtha in cases for export has been advanced 1c a gallon.

UNLISTED SECURITIES

Future for American Writing Paper

Conservative Dividend Policy—Early Expectations Not Realized—Its Prospects for the Long Pull

By IRVIN GILLIS

THE wonderful year 1916 brought few more marked surprises than the earnings of the American Writing Paper Company. The year previous a deficit was reported to the amount of $126,956, but 1916 produced earnings for dividends of $2,524,378, which figures out 20.20 per cent on the preferred and 17.36 per cent left for the common issue. Of course the market reflected the great change in the company's outlook. The bonds, which sold as low as 51⅝ in 1915, advanced to 94 in the following year and the preferred stock from a low of 5 to 76¼. The common, by the way, has not been listed and on account of accrued dividends, now amounting to over 120 per cent, interest in the stocks has been confined to the senior issue.

So good seemed the prospects early in 1917 that new interests eagerly bought into the company, taking over control. One of the new directors stated on February 10: "I believe that American Writing Paper preferred is a purchase............While the company may not be as quick to respond to earnings as was Mercantile Marine, still the possibilities are there and I expect to see them realized."

Another Surprise

However, following the surprise of 1916, came another for 1917—a net income of but $150,000 or 1.20 per cent for the preferred issue after payment of bond requirements.

The bonds, of which $11,118,000 are in the hands of the public and mature July 1, 1919, sell around 85 and the preferred around 23. What of the future? Were the 1916 results simply due to general prosperity, or do the difficulties in the last calendar year simply indicate widespread industrial troubles and the housecleaning plans of the new control?

Let's see whether the history of the company will give us any dependable clews.

The American Writing Paper Company was incorporated in July, 1899, about the beginning of the great consolidation period. The first available balance sheet, that of January 1, 1910, showed a capitalization of $17,000,000 5 per cent sinking fund bonds, $12,500,000 7 per cent cumulative preferred stock and $11,500,000 outstanding. Common current assets, including inventories, amounted to $4,232,456 and current liabilities to $77,497 only. The company has at all times maintained a strong current asset position, and up to last year, when nearly all corporations were forced to borrow heavily, the current liabilities were nominal; for example at the end of 1916 amounting to $3,727 and at the end of 1912 to $1,252.

The management never fell into the error which pulled down most of the earlier consolidations—that of declaring unwarranted dividends in order to boom the market for the securities. Not till 1908 were any dividends paid on the preferred at all, and then only 2 per cent followed by 8 per cent spread out over the succeeding 5 years. The bond sinking fund of $100,000 a year has been more than complied with, and the interest on the sinking fund bonds reinvested in bonds, so that at the end of 1917 the company had $3,424,000 of bonds in the hands of the trustee, and had in the treasury, bought as favorable market opportunities occurred, $2,458,000 further of the 5s, a total of $5,882,000, or over one-third. The company not only maintained its properties to the limit of possibilities provided by earnings but materially increased the output of the old plants in the face of the necessity of disposing of a couple of unprofitable plants, without increasing capitalization or other liabilities.

A Thorough Housecleaning

In 1917 the new management determined

to make a thorough job of housecleaning. A careful appraisal was made by the American Appraisal Company, and allowing for $5,310,661 depreciation the reproductive value figure on a pre-war basis of $21,179,346, was marked down to $15,868,685 and other adjustments were made resulting in the reduction of the company's surplus by $2,135,256. Considering that the present figures are fair, it would seem as though the figures previously given for property value were not far out of the way, the reason being of course that the old management had not capitalized extensions and improvements, but paid for them out of operating expenses.

INCOME FIGURES, YEARS ENDED DEC. 31.

	Total Income	Bond Int. and Sink. Fund	Net Income	Surplus for Year
1910	$1,175,267	$950,000	225,267	ba24,643
1911	1,213,323	950,000	263,323	b13,759
1912	1,295,257	950,000	345,257	b95,647
1913	720,810	950,000	a229,190	a229,190
1914	841,690	950,000	a108,310	a108,310
1915	823,044	950,000	a126,956	a126,956
1916	3,550,878	950,000	c2,524,378	2,524,378
1917	1,492,929	566,530	de150,287	150,287

a Deficit. b After paying $249,910 in dividends. c After charging off $76,500 on stocks. P After charging off $559,992 sales discount, $45,060 sundry, and tax and inventory reserves. e After miscellaneous charges, taxes, interest, etc., totaling $1,342,641.

Note.—Previous to 1917 sinking fund requirements and interest on bonds in the treasury and in the hands of the trustee were included with charges against the bonds in the hands of the public.

Early in 1904 the company showed the actual property assets, amounting to $17,105,646 separate from the goodwill and trade-mark account of $18,010,150. The company had about $4,600,000 working and current assets, making a total tangible asset valuation of around $21,705,000. At this time the company had out about $16,600,000 of bonds, besides $22,000,000 of stock.

Disappointing earnings year after year emphasized the fact that too many bonds had been issued. Because of its strong current asset position and conservative management the company has kept the bonds out of danger, in spite of erratic net earnings.

The American Writing Paper Company faces peculiar conditions. The extraordinary earnings of 1916 were accountable by a runaway market for paper. Contrary to general impression the company's balance sheet for the end of 1915 did not show an unusually large inventory.

Labor, material, transportation, and other difficulties not under the management's control, were unfavorable factors in 1917. Raw materials advanced about 37 per cent while the price of the product rose only 20 per cent. Labor costs increased. And in other years the company has suffered greatly on account of low water in the streams that furnished power to its mills.

A Broad View

However, viewing the proposition broadly it appears that the consideration of the various plants making up the American Writing Paper properties simply did not bring the advantages expected, and anticipated by an unwieldy capitalization. Good years have brought intense competition on the part of small plants, which, as is the case in the tannery and leather glove industries for example, could operate to just about as good advantage as the largest company. In poor years the smaller concerns were better able to dispose of surplus stocks without the necessity of breaking the price of standard goods.

The Rosen-Branch-Evans-Wallace-Herrick control now in the saddle is exceedingly strong financially and may eventually make the company an economic success. Such a thing has been done, as witness the American Linseed and Corn Products companies. Yet, considering the economic conditions in the industry up to now, the prospects for the long pull would seem none too bright.

The advantageous refunding of the bonds would seem to depend upon Government policy, the conservative financial management of the company and the recognized strength of the men in control, rather than on earnings revealed in the accounts. The year 1916 seems to have created a once-in-a-generation opportunity for the old control to unload upon strong shoulders.

There is, however, some evidence in the action of the stock in the market that leads one to believe that insiders know of some favorable developments that have not yet been disclosed to the public.

Unlisted Security Notes

These notes are a record of recent price-affecting FACTORS, and are not to be regarded as RECOMMENDATIONS to purchase or sell.

BUTTERWORTH-JUDSON—Receives Picric Acid Order—Contract with the United States Government for 72,000,000 pounds of picric acid has been closed. It calls for construction of a new plant for which the Government will advance all the funds. Capacity will be 6,000,000 pounds monthly and the order represents a year's output. It is estimated that the profit on this contract will approximate $500,000 per month or close to $6,000,000 for the year.

CURTISS AEROPLANE—Earning $1,000,000 Monthly—Gross was pushed up from $7,500,000 to approximately $19,000,000 and there was an expansion in net profits from $600,000 to $2,400,000. This was an advance from the government, security for which consists of a blanket unrecorded mortgage. The advance was close to $12,000,000 but it has since been reduced to about $9,000,000. This $3,000,000 reduction plus a $400,000 increase in cash on hand, in fact, about measures the profits of Curtiss to May 1. Of late earnings have been over $1,000,000 a month, before taxes, adjustments for which will be made at the end of the year.

DOMINION STEEL—Plant Extensions—In addition to the construction of the ship plate rolling mill, it is carrying out several important extensions to the plants at Sydney. The ship plate rolling mill will have a capacity of approximately 100,000 tons per annum, and the contract entered into with the Canadian government provides for the government taking 50,000 to 75,000 tons per annum for a period of five years. A new coke oven plant is also being installed. The first battery of the new plant will be in operation during May and the second unit about a month afterwards. Surplus increased over 1916 by $8,311,106, and was $26,982,024, about $94.20 per share on common. About $4,750,000 was deducted for income and excess profit tax, reducing net for 1917 over 1916 by $2,746,639. Dividends of $6,231,520 were paid. Extras were only 20% compared with 60% in 1916.

EMERSON PHONOGRAPH—Earnings for 1918—The gross earnings for the year ended April 30, were $339,688. After deducting selling and general expenses, depreciation charges of $29,953, and $14,805 for other items, the net was $29,963. The total surplus on April 30 was $228,739. The Company's 9-inch discs retailing at 65 cents have met with strong demand which is likely to increase when the fall season opens. Competitors selling a 10-inch disc at a minimum of 85 cents have created a price advantage in favor of the Emerson Company. New products are being worked out to diversify output and insure capacity operations; while liberal depreciation charges have been made to strengthen intrinsic value of shares.

FEDERAL DYESTUFF—Application for Foreclosure Sale—Has been made to have the property sold under foreclosure, and it is expected that Judge Sandford will sign the decree within a day or two. Suit was brought by holders of its two-year first mortgage notes, by reason of the default to meet interest payments. If the decree is signed it is expected that the property will be sold within four or five weeks. A reorganization plan is being worked out by the so-called Krech note-committee, and it is believed that it is planned to bid in the property.

NASH MOTORS—Capacity Operation—Orders on hand are sufficient to keep the works running full until Jan. 1, next. About 75% of the force has been engaged on government work. Charles W. Nash of General Motors fame is the presiding genius of the company, which at the outset took over the Jeffery line of cars and trucks but is now producing cars and trucks bearing the Nash name. For the 16½ months ending Nov. 30 last, Nash earned $1,590,284, or at the annual rate of $23 a share.

PEERLESS TRUCK—Shipped Last of English Trucks—Some time ago, the last of the trucks on the English order for 10,000 trucks of the four-ton variety were shipped. The company is now in a position to take on war business from the U. S. Government. Its capacity is 20 trucks a day. About 1,300 trucks on the English order will apply on 1918 business. In 1917 the company manufactured and shipped something over 4,400 trucks. Last year Peerless manufactured and sold 3,400 passenger cars. Its schedule for this year calls for an output of about 2,400.

SUBMARINE BOAT—Expects to Complete Four Ships Soon—Launching of the first of the freight vessels it is building for the Government is expected on Decoration Day as well as the turning over to the Shipping Board by July 31 of four completed ships. Under the contract now practically settled the company will no longer act as agent for the Government but will build the ships at a stipulated price. Contract which will add about $100,000,000 to bookings should prove reasonably profitable. The adjustment will mean greater speed in ship construction, the present arrangement having occasioned unnecessary delays. Unfinished orders for submarines and patrol craft now amount to $40,000,000 in round figures, not including the ship contract.

TOPICS FOR TRADERS

Practice of Loss Limitation

THIRD ARTICLE

Other Ways of Using Stops—Conclusion

By FRANK C. FORSYTHE

IN our last article, recent fluctuations in U. S. Steel were used to show the practical application of the stop loss idea to active trading in the market.

After our trader had been stopped out of his short Steel at 92½ three bottoms were subsequently made between 89½ and 90. After the third time down below 90 it rallied and our trader might have felt justified in trying a purchase at 91. The proper stop was 89, which was 2 points below the purchase price and below any bottom made by Steel during the year up to that time. Shortly after this purchase had been made the well advertised German offensive on the Western front was launched, and under pressure of considerable selling the market weakened all around. The stop at 89 was soon caught, netting a loss of 2¼ points, including commissions.

On Monday, March 25, Steel opened at 86½. During the first fifteen minutes of trading probably 50,000 shares of Steel came to market, but it never weakened an eighth below the opening price. By the end of the day it was up above 89 on a turnover of 170,000 shares for the day. This was evidence of substantial buying. We will assume that our trader bought net higher than 90, as a further evidence of Steel's intention to advance was given at this figure.

In this connection it may be said that a study of the price movements of Steel and the volumes dealt in for the week ending March 23, and the week ending March 30, throws an excellent sidelight upon the technical position existing in the stock at the time. During the former week, which was the week in which the German offensive began, Steel lost 3⅛ points on a turnover of 309,000 shares. In the following week it gained 1⅜ points on 410,000 shares for the week, an increase of 25 per cent. in volume of trading during the week which showed the gain. The buying in Steel during this period when the whole market was under pressure was of an excellent character, and volume study lent considerable aid in detecting the good character of the buying.

Stop Safe for Large Rise

Having bought at 90 and with the stop in this case as low as 86, our trader would not have had to contend with one single three-point reaction throughout the entire rise. Steel advanced, in the meanwhile, to 113¾, at which price our trader would have profits of 23½ points. An excellent indication to make a second purchase came at 99 when the stock broke through its previous high for the year. Having generous profits on his first trade, our trader would have been in a fine position to take on a second lot on the "break through" at 99. Had he purchased the second lot it would have been well to place a three-point stop on the second lot when purchased and to have followed up profits, as in the case of the first lot, with his stop three points behind the high. According to this method at Steel's high (113¾) he would have stops placed on two lots of stock at 110¾. On a subsequent movement of the stock this stop was reached, and our trader would have 20½ points net profit on his lot bought at 90 and 11½ points on his second lot bought at 99, or 32 points net profit on the two trades.

The above details give, in a general way, some idea of a practical method of applying the loss limitation principle to active trading. There are many variations possible. A trader who is at the tape throughout the whole trading day can operate with stops, using for his guidance any method of tabulation which will record either the one point, one-half point or even as small

as the three-eighth point fluctuations. These smaller unit movements will enable him to designate points of resistance more closely than if he were to depend upon consideration of the two-point movements only. The smaller the unit movement used for this purpose the closer the stop can be placed. Only the practical use of any plan, however, will determine for the trader whether or not it may be suitable to his particular purpose.

When trading in an active stock like Steel, the stop may be given to the broker at the time the trade is entered. In the case of less active issues the stop should be borne in mind, and an order given to execute it instantly in the event that the stop price should be reached. In many stocks, placing a stop order in advance is simply an invitation to the specialist in the stock to mark the price up or down until the stop may be reached.

No Set Rules to Go By

An important thing to remember in connection with the use of stops is the particular utility of the stop. Its proper use does not contemplate the building up of any automatic method of trading. Nothing can supersede the trader's judgment in determining when to enter a trade. He must base his position as a bull or a bear upon some tangible evidence that a turn has come in the prevailing trend, or that a new movement has begun. Once the trader has determined upon a position, and has made his commitment accordingly, then the time has arrived to apply the principle of loss limitation. As has been stated before in this series, no arbitrary rule can be laid down for the location of the stop. It should always be a little below the point of danger in the case of a purchase, or a little above in the case of a short sale. The trader, himself, must determine where these points are, and the location of the stop must be in accordance with his judgment in the matter. If one's trading judgment were one hundred per cent accurate there would be no need for the use of stops. It is to guard against errors of judgment that loss restriction should be brought into play.

The Time Element Important

Traders of long experience in the market evolve some unusual ideas with regard to the use of stops. The ordinary application of stops to trading, as the writer has endeavored to illustrate, confines itself entirely to the price movement. Many quick trading operations of the scalping variety, commonly carried on by those who make it their business to watch the tape day in and day out, are based upon the idea of responses. For instance, a certain stock becomes unusually active, giving the tape reader the idea that it is about to join in a more or less general movement already under way. On this expectation he buys or sells the stock in question at the market, expecting, from the activity he has already observed in it on the tape, that it is about to make a substantial movement. In operations of this character an entirely new element enters into consideration, and that is the element of time. Instead of the usual one- two- or three-point stop on commitments so made, some traders use what is known as the time stop. That is, if the expected movement does not get under way within a reasonable time after the commitment has been made, the trade is "jumped." In other words, if the expected response is not almost immediate the idea conveyed by the delay is that the stock is not yet ready to move in accordance with the trend, and the trade is cut in order to free the trader's capital for operations in some more likely candidate. Trades of this kind can usually be entered and closed with nominal losses.

Stops on Short Trades

As essential as the use of stops may be to trading on the long side of the market, their use is much more imperative when trading on the short side. An old axiom of the market is that there is always a bottom but the sky is the limit for tops. If one purchases a stock selling at 50 the worst that can happen is that the trader may eventually lose the entire purchase price. But one selling a stock short at 50 leaves himself open to an indefinite and sometimes heart-breaking loss. Recent markets have given several examples of the danger of selling short without stops. The whole history of the market is replete with incidents which go to prove the writer's contention. Once a stock gets into new high territory there is no way of determining how much higher it may go before the selling forces overcome the moving power behind it.

Whatever may be said in favor of the

scale method of operation in the market must apply to the buying side only. With an abundance of capital and a complement of trading judgment, there is, undoubtedly, something to be said in favor of the scale plan. But to attempt to sell any stock short on a scale up in any kind of a market is to invite disaster. This is especially so of stocks closely held or those which have not been widely distributed among the public at large.

After a trader has had sufficient experience in the market to judge with some degree of accuracy the habits of any particular stock, he can, at times, use the stop principle in connection with the anticipation of a particular stock's movement. For instance, if the technical position of the stock under consideration justified the expectancy of a five-point upward movement he could beforehand put in his selling stop five points from the prevailing price. He might or might not go long of the stock, in the meantime, while at the same time his mind could be quite clear as to the advisability of selling it on a rally up to the price he had previously determined upon. Of course, he must not make the error of thinking that the stock must go to his selling figure, because such an idea is absurd on its face. Yet, if it do so, justifying its technical possibilities, a sale might readily be risked at that figure with a stop reasonably above it.

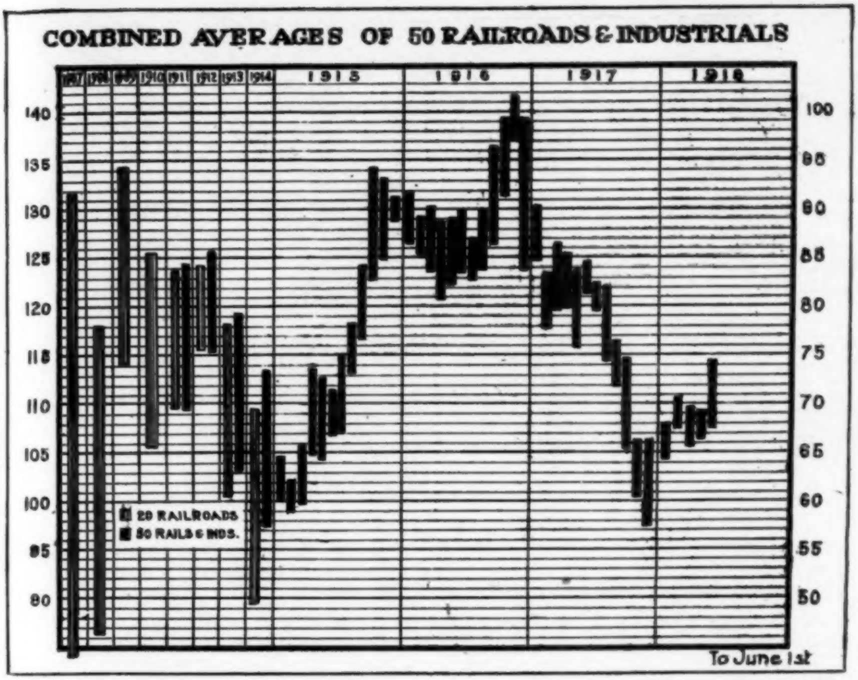
Fixing prices above or below the prevailing price of a stock, at which point, in the trader's opinion, it might become a sale or a purchase, is something in the nature of setting a trap for the stock. To buy or sell at the figures indicated without the use of a protective stop loss in connection with the sale or purchase, would be simply setting a trap for the trader himself. If this idea of anticipating a stock's movement is to be traded upon at all, the protective stop should be used in connection with the trade, and this protection should never be dispensed with.

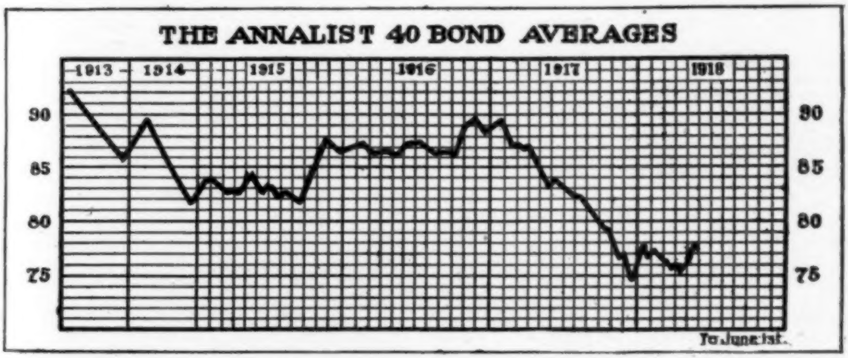
Stops Conserve Profits

Another valuable idea in connection with the use of stops is that which contemplates the conservation of profits. In the great majority of cases once a movement in either direction has gotten well under way no contrary movement of any great extent may be expected until the movement itself has been completed. In the movement of Steel, common, from 86½ to 113¾, described in detail in this series, there was no important reversal until after top had been reached. Sometimes, of course, quite emphatic price reversals occur, but once the movement is again resumed it usually continues until the movement is completed. There is a way by which traders can protect themselves to a certain extent against these reversals aside from the automatic placing of stops three points under the high or above the low. We will suppose that a movement has gone for say 10 points. The trader might see through the first reaction from the prevailing trend without cutting his trade. Then, on the subsequent resumption of the main trend, he would be justified in following his stock rather closely with a stop. The moment the old top or bottom was approached would, of course, signal the crisis for the trader. On a close approach to a former top or bottom nothing more than a momentary hesitancy should occur if the intention was to put the stock higher or lower, as the case may be. If the trader was following his stock with a three-point stop he would do well to move it not more than one or two points below the last quotation the moment the territory of the old high or low was closely approximated. Should his stock break through thereafter, he would be safe in again going back to his original stop idea, but in case of a second reversal he would be out "on stop" comfortably close to the extreme point reached by his stock.

Individual Requirements

Almost every trader who at last reaches the stage where he becomes a dyed-in-the-wool adherent to the use of stops in his trading will finally evolve a method adapted to his own particular requirements. These articles have been written with the view of suggesting ideas in the use of stops without, at the same time, laying down any set rules which might hamper the average trader far more than they would be of practical benefit. The one thing that the writer has sincerely endeavored to convey is the desirability of their constant use in active trading in order that the trader's capital may be protected against excessive and hurtful losses, and that profits, when accrued, may be conserved.





MARKET STATISTICS.

			Dow Jones Avgs.		50 Stocks			Breadth (No.
		40 Bonds	20 Inds.	20 Rails	High	Low	Total Sales	Issues)
Monday,	May 20....	77.81	82.47	83.59	72.89	71.46	1,004,500	210
Tuesday,	" 21....	77.83	82.87	84.00	72.41	71.07	569,600	180
Wednesday,	" 22....	77.79	82.22	83.09	72.63	71.38	761,300	190
Thursday,	" 23....	77.82	82.21	82.51	71.39	70.53	879,500	181
Friday,	" 24....	77.87	81.58	82.40	71.86	70.73	885,500	174
Saturday,	" 25....	77.77	81.16	83.20	70.94	70.30	409,600	155
Monday,	" 27....	77.57	78.65	82.27	70.72	69.04	922,800	197
Tuesday,	" 28....	77.36	78.42	82.97	69.57	68.36	939,900	203
Wednesday,	" 29....	77.33	78.44	83.50	70.19	69.17	690,200	187
Thursday,	" 30....	STOCK EXCHANGE CLOSED (Decoration Day)						
Friday,	" 31....	77.30	78.08	82.88	69.46	68.59	558,500	167
Saturday,	June 1....	77.31	77.93	82.65	69.23	68.74	310,400	135

IMPORTANT DIVIDEND ANNOUNCEMENTS

To Obtain a Dividend Directly from a Company the Stock Must Be Transferred into the Owner's Name Before the Date of the Closing of the Company's Books

Ann. Rate	Name	Last Div'd	Books Close	Payable
	A			
12%	Ajax Rubber Co.....	3 % Q	*May 31	June 15
$6	Allouez Mining Co...	$1.50 Q	*June 12	June 26
6%	Amer Bank Note p..	1½% Q	*June 15	July 1
7%	Amer Can p.........	1¾% Q	*June 14	July 1
7%	Amer Locomotive p..	1¾% Q	*July 5	July 22
5%	Amer Locomotive c..	1¼% Q	*June 14	July 3
7%	Amer Sugar Ref p..	1¾% Q	*June 1	July 2
7%	Amer. Sugar Ref p.	1¾% Q	*Sept. 3	Oct. 2
6%	Amer Sugar Ref c..	1½% Q	*June 1	July 2
6%	Amer Sugar Ref c..	1½% Q	*Sept. 3	Oct. 2
...	Amer Sugar Ref ex.	¾%	*June 1	July 2
...	Amer Sugar Ref ex.	¾%	*Sept. 3	Oct. 2
...	Amer Sugar Ref ex.	¾%	*Dec. 2	Jan. 2
...	Amer Sugar Ref ex.	¾%	*Mar. 19	Apr. 19
8%	Am Telep & Teleg...	2 % Q	*June 20	July 15
$10	Atl G. & W I SS c..	$5.00 S	*June 28	Aug. 1
20%	Atlantic Ref	6 % Q	*May 20	June 15
8%	Atlas Powder c......	2 % Q	*May 31	June 10
...	Atlas Powder c ex..ff	3 %	*May 31	June 10
	B			
7%	Baldwin Loco p.....	3½% S	*June 8	July 1
7%	Booth Fisheries p....	1¾% Q	*June 20	July 1
$2	Booth Fisheries c....	$0.50 Q	*June 20	July 1
6%	Borden's Cond Milk p.	1½% Q	*June 1	June 15
...	Brit-Am Tob Ltd or.	e6 %	*June 10	June 29
6%	Brooklyn Union Gas..	1½% Q	*June 13	July 1
...	Burns Bros extra..	w5 %	*May 31	June 10
	C			
$60	Calumet & Hecla...	$15.00 Q	*May 28	June 14
$3	Cambria Steel Co...	$0.75	*May 31	June 15
...	Cambria Steel Co ex.	1½%	*May 31	June 15
7%	Central Leather Co p.	1¾% Q	*June 10	July 1
4%	Chesapeake & Ohio...	2 % S	*June 7	June 29
12%	Chesebrough Mfg (Cn)	3 % Q	*June 1	June 20
...	Cheseb'gh Mfg (Ca)ex	½%	*June 1	June 20
7%	Childs Co p..........	1¾% Q	*May 29	June 10
6%	Childs Co c..........	1½% Q	*May 29	June 10
6%	Cities Service Co p..	½% M	*June 15	July 1
6%	Cities Service Com...	½% M	*June 15	July 1
9%	Cities Service Co c e.	†¾% M	*June 15	July 1
7%	Colorado Power p....	1¾% Q	*May 31	June 15
...	Columbia Graph Co..	1¾% Q	*June 15	July 1
4%	Comp. Tabulat.-Rec..	1 % Q	*June 25	July 10
7%	Crucible Steel p.....	1¾% Q	*June 15	June 29
7%	Cuban-Amer Sugar p.	1¾% Q	*June 15	July 1
10%	Cuban-Amer Sugar c..	2½% Q	*June 15	July 1
	E			
6%	Elkhorn Coal Corp p.	3 % S	*June 1	June 10
...	Elkhorn Coal Corp c..	2 %	*June 1	June 10
	F			
7%	Federal Mng & Sm p.	1¾% Q	*May 25	June 15
7%	Federal Sugar Ref c	1¾% Q	*June 7	June 17
	G			
8%	Galena Signal Oil p..	2 % Q	*May 31	July 31
12%	Galena-Signal Oil c..	3 % Q	*May 31	July 31
6%	General Chemical p..	1½% Q	*June 18	July 1
8%	General Electric ...	2 % Q	*June 8	July 15
...	General Electric e..	†2 %	*June 8	July 15
10%	Gulf States Steel c.	2½% Q	*June 15	July 1
...	Gulf States Stl tr cfs.	2½%	*June 15	July 1
	H			
$4	Hask & Bark Car Co	$1.00 Q	*June 15	June 29
4%	Hocking Valley Ry c	2 % S	*June 14	June 29
	I			
$16	Illinois Pipe Line....	$8.00 S	*May 31	June 29
...	Indian Ref. p........	1¾% Q	*June 1	June 15
12%	Indian Ref c........	3 % Q	*June 1	June 15
...	Interb Rapid Transit.	2½% Q	*June 20	July 1
...	Inspiration Con Cop..	ff$0.25	*July 13	July 30
	K			
...	Kennecott Cop Corp..	$1.00 Q	June 7	June 29
7%	Kress (S H) & Co p.	1¾% Q	*June 20	July 1
4%	Kress (S H) & Co c.	1 % Q	*July 20	Aug. 1
	L			
6%	Lackawanna Steel c..	1½% Q	*June 14	June 29
...	Lackawanna Steel ex.	2½%	*June 14	June 29
5%	Laclede Gas Light p.	½% S	*June 1	June 15
7%	Laclede Gas Light c.	1¾% Q	*June 1	June 15
16%	Lehigh Val Coal Sale	4 % Q	*June 20	July 1
...	Liggett & Myers Tob p	1¾% Q	*June 24	July 1
	M			
12%	McKinley-Dar Savage	3 % Q	*June 8	July 1
4%	Mackay Com p.......	1 % Q	*June 8	July 1
...	Mackay Com c.......	1 % Q	*June 8	July 1
$2	Magma Copper	$0.50 Q	*June 7	June 29
10%	Mergenthaler Lino ex	2½% Q	*Dec. 5	Dec. 31
8%	Mexican Petrol p....	2 % Q	*June 15	July 1
8%	Mexican Petrol c....	2 % Q	*June 15	July 1
7%	Montana Power p....	1¾% Q	*June 15	July 1
5%	Montana Power c....	1¼% Q	*June 15	July 1
	N			
5%	Nat Cloak & Suit c..	1¼% Q	*July 8	July 15
7%	Nat Lead p	1¾% Q	*May 24	June 15
5%	Nat Lead c	1¼% Q	*June 14	June 29
...	Nat Transit Co......	$0.50 S	*May 31	June 15
...	Nat Transit Co ex...	$0.50	*May 31	June 15
20%	New York Air Brake.	5 % Q	*June 2	June 20
...	N Y Edison	1¾% Q	....	June 14
5%	North American Co..	1¼% Q	*June 15	July 1
...	Northern Securities...	3 %	*June 27	June 27
	P			
7%	Packard Motor Car p.	1¾% Q	†May 31	June 15
8%	Public Serv of N J..	2 % Q	*June 15	June 29
	R			
7%	Rail Steel Spring p..	1 % Q	*June 8	June 20
5%	Rail Steel Spring c..	1¼% Q	*June 15	June 29
4%	Reading Co 2d p....	1 % Q	June 25	July 11
7%	Repub Ir & St p.....	1¾% Q	*June 18	July 1
6%	Repub Ir & St c.....	1½% Q	*July 20	Aug. 1
$10	Solar Refining	$5.00 S	*May 31	June 20
$20	Standard Oil (Neb).	$10.00 S	*May 20	June 20
$20	Standard Oil (N J)..	$5.00 Q	*May 20	June 15
$12	Standard Oil (Ohio)..	$3.00 Q	*May 31	July 1
...	Standard Oil (O) ex.	$1.00	*May 31	July 1
24%	Standard Screw Co c.	6 % Q	*June 10	July 1
6%	Submarine Sig Co..Last div. $0.75 paid July 16			
	S			
...	South Penn Oil......	$5.00 Q	*June 13	June 29
	U			
6%	Un Bag & Paper Corp	1½% Q	*June 5	June 15
5%	United Drug Co c....	1¼% Q	*July 1	July 15
$0.60	United Eastern Min..	$0.05 M	*May 31	July 31
6%	Un Paper Board p...	1½% Q	*July 1	July 15
16%	Un States Ind Alco c	4 % Q	*May 28	June 14
16%	Un States Ind Alco c	4 % Q	*May 28	June 14
...	U S Steamship Co ex.	½%BM	*June 14	July 1
	W			
...	Worth Pump Mach pA	1¾% Q	*June 20	July 1
...	Worth Pump Mach pB	1½% Q	*June 20	July 1

* Dividend payable to stockholders of this date.
ff Payable to Red Cross.
e Interim dividend.
w Payable in Second Liberty Loan Bonds.
† Payable in Common Stock.
ex Extra.